FINANCIAL TIMES

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WORLD NEWS

Palestinians reject demand as Israelis debate peace plan

An Israeli cabinet meeting called to debate the US-brokered interim peace deal with the Palestinians appeared to be heading for a fresh crisis yesterday after a Palestinian negotiator rejected what Israel had called a make-or-break demand. Israel had insisted that the Palestine National Council vote to annul charter clauses calling for the destruction of the Jewish state, but the Palestinian negotiator said there would be no vote.

Corporate America sheds jobs
Downsizing is back in corporate America, according to a new employment trends survey, with jobs disappearing on a scale not seen since the early 1990s. More than 91,000 posts were axed during October, said Chicago-based Challenger Gray & Christmas. Page 5

Czechs face problems
Czech politicians traded recriminations after the European Commission said they had fallen behind with preparations for EU membership. Separately, Standard & Poor's downgraded Prague's credit rating. Page 2

China swoops on $760m tax fraud
Police have arrested 89 provincial officials and sentenced a top tax inspector to death in what Chinese media described as the country's biggest tax fraud case. Page 4

UN in food protest to Taliban
The United Nations World Food Programme has protested to the Taliban Islamic militia over the disappearance of 1,500 tonnes of emergency food aid in a central Afghanistan region that it overran in recent fighting.

Kazakh candidate rejected
Kazakhstan's electoral commission rejected the candidacy of Akezhan Kazhegeldin, considered the main opponent to president Nursultan Nazarbayev in an election scheduled for January 10.

Drug informer murdered in jail
A drug trafficker rated one of Colombia's key Cali cartel members was shot dead in prison by a man pretending to be his lawyer. Page 4

Swiss report on anti-semitism
A Swiss government report says a wave of anti-semitism has followed the recent debate over Swiss banks' role in the second world war. The report portrays a society with widespread anti-semitic prejudices, stereotypes and attitudes. Page 2

Immigrants queue for permits
Thousands of illegal immigrants queued at Italian police stations, each hoping to receive one of 38,000 residence permits granted under a new law.
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French pupils renew protests
French school pupils demanding more teachers and smaller classes launched a third wave of protest marches, but Prime Minister Lionel Jospin insisted their demands had already been met.

BUSINESS NEWS

Royal Dutch/Shell profits slump 56% in third quarter

Royal Dutch/Shell, Anglo-Dutch oil group, reported a 56 per cent fall in third quarter net profits to $841m, in a performance that was far worse than analysts' forecasts. Page 21; Lex, Page 20

Chase Manhattan, the US bank, is to expand its activities in Europe in the expectation of a surge in the leveraged buy-out market. Page 21

HypoVereinsbank, Germany's second largest bank, said two executives had settled a quarrel over property deals that caused it to announce DM3.5bn ($2.1bn) in risk provisions. Page 21

Sandy Weill, co-head of Citigroup, the financial services giant formed by the merger of Citicorp and Travelers Group, said the corporate sides of the businesses were "just not getting it together". Page 21; Citi two-step, Page 18

The French government predicted that the European defence merger between British Aerospace, France's Aerospatiale and Germany's Dasa would go ahead in the first half of 1999. Page 20; Indra sell-off, Page 25

Thailand announced the world's "biggest one-day asset sale" next month when it will auction $10.5bn in loans seized last year from bankrupt finance companies. Page 4

Kia's creditor banks unanimously approved Hyundai's takeover of the troubled South Korean vehicle group. Page 21

Scandinavian Airlines System announced a 4 per cent rise in underlying profits, in spite of intensifying competition and labour disruption. Page 22

Portugal is to merge three of the country's biggest energy groups into a oil and gas operator worth about $4bn, and sell a majority stake within two years. Page 22

A US agency has joined Japan in attempting to boost investment in emerging economies by providing protection to international bond investors. Page 20

Endesa, Spain's dominant power group, is to take full control of its domestic affiliates, preparing it for deregulation of the domestic electricity sector. Page 22

Enso and Stora, the Nordic groups merging to form the world's largest paper company, unveiled a structure based on eight divisions. Page 25

Cir, the Italian industrial holding company controlled by Carlo De Benedetti, reported a sharp rise in nine-month pre-tax profits to L297.8bn ($180m). Page 25

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
Page 31

Clinton given escape route

Scaled-down inquiry into Lewinsky affair reduces likelihood of impeachment

By Mark Suzman in Washington

President Bill Clinton's chances of escaping impeachment rose yesterday after Congressional Republicans scaled back their inquiry into the Monica Lewinsky affair.

The move marks a significant about-face by the Republican-controlled House judiciary committee, which originally planned an inquiry stretching into next year, threatening to make Mr Clinton a lame-duck president.

The Republican retreat follows disappointing results in this week's mid-term elections. Senior party leaders acknowledge a tactical blunder in making the affair central to the campaign.

Amid signs of disarray within the party, Henry Hyde, Republican chairman of the committee, said he wanted to wrap up proceedings as quickly as possible. The only significant witness the committee would call was the independent counsel, Kenneth Starr, whose damning report in September threatened to sink Mr Clinton. Mr Starr will testify on November 19. In the mid-term elections, the Democrats confounded expectations by maintaining their position in the Senate and gaining seats in the House of Representatives.

Now the investigation could be completed by next month, and there is speculation in Washington the committee will decide to drop the issue rather than recommend impeaching the president.

The president declined to comment directly on Mr Hyde's decision. But after meeting Democratic leaders, he said the election had sent a clear message to Congress to focus on policy issues such as healthcare rather than "politics and personalities". Democratic aides were privately optimistic the election result meant they would be able to put the Lewinsky matter to rest.

Mr Hyde warned that the committee, before making its decision, would be submitting several detailed written questions to Mr Clinton so that investigators could narrow down exactly what allegations in Mr Starr's impeachment report the president disputed. In a further sign of growing White House confidence, Mr Clinton reportedly plans to reject the latest offer from Paula Jones to settle her outstanding sexual harassment case against him. Ms Jones's case, currently on appeal, took a further twist yesterday when her lawyers issued a statement saying they were preparing to quit after the appeal.

In a potential obstacle to an early settlement, Mr Hyde said he did not believe the House had the constitutional authority to recommend an alternative to impeachment, such as censure. That leaves open the possibility of the House voting articles of impeachment and then leaving it to the Senate to resolve the difficult question of deciding whether some lesser form of punishment is merited.

Mid-term elections, Page 6
Philip Stephens, Page 18

Britain reduces interest rates by half point

By Tony Barber in Frankfurt and Deborah Hargreaves and Robert Chote in London

Relaxed attitude: Oskar Lafontaine (left), Germany's new finance minister, attended the Bundesbank's policy-making committee to put the case for a relaxation in monetary policy to bank president Hans Tietmeyer. Picture: Reuters

Britain became the fifth European country this week to cut the cost of borrowing yesterday when the Bank of England, the central bank, reduced its key interest rate by half a percentage point to 6.75 per cent. The reduction was larger than had been expected by companies and economists and takes UK rates to their lowest level in 18 months.

But the German and French central banks yesterday held their key interest rates at 3.3 per cent. The Bundesbank, Germany's central bank, ignored pressure from the new centre-left government to boost the economy by lowering its rates.

The Bank of England's Monetary Policy Committee, which has been under pressure from business leaders and unions to lower borrowing costs, said it was cutting rates for the second month in a row because of a slowdown in domestic and international growth.

Britain's reduction followed a similar move in Denmark yesterday and rate cuts in Spain, Portugal and Sweden this week. The cuts reflected the weaker world economy and moves towards converging rates among countries to be included in the European single currency zone.

Interest rates have been cut worldwide since the Federal Reserve, the US central bank, cut the cost of borrowing on September 29.

Oskar Lafontaine, Germany's new Social Democratic finance minister, attended the meeting of the Bundesbank's policy-making committee yesterday to put the case for a relaxation in monetary policy.

Since the SPD's election victory in September, Mr Lafontaine has broken with longstanding German political practice by publicly demanding interest rate cuts from the Bundesbank, a worldwide symbol of central bank independence.

Mr Lafontaine's apparent intention is to apply advance pressure on the European Central Bank, which will assume responsibility for monetary policy in the 11-nation euro-zone after the single European currency is launched on January 1.

But Mr Lafontaine lowered the temperature yesterday when he stressed he was not questioning the independence of the bank and that he looked forward to "good and pertinent co-operation" with central bankers.

Share prices slipped in London as the City interpreted the rate cut as a sign that the Bank of England was worried about recession. The benchmark FTSE-100 index of leading shares fell 143 points or 2.5 per cent.

Bonn hit by economic chill, Page 3,
Danish rates fall quarter point,
Page 3
Power struggles over euro, Page 19
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Scientists unveil new human cell technology

By Clive Cookson in London

US scientists have cultivated embryonic human cells that can divide indefinitely and generate any tissue in the body from brain to bone, skin to stomach.

The breakthrough, announced today by researchers at the University of Wisconsin and Johns Hopkins University in Baltimore, Maryland, has significant implications for biology and medicine.

Embryonic stem cells, as they are called, provide a potentially unlimited source of human tissues for transplantation. They could, for example, be directed to produce heart muscle to boost failing hearts.

More controversially, embryonic stem cells may provide a way of cloning humans, in conjunction with the technology used to produce Dolly, the celebrated cloned sheep. Or they could be used in "germ-line" genetic engineering, in which any added genes are passed on to future human generations.

Such fears led Congress to ban US government funding of research involving human embryos in 1995. But Geron, a California biotechnology company, is paying for the research at both universities and has worldwide rights to exploit it.

Geron is not interested in human genetic engineering or cloning, says Thomas Okarma, the company's head of research and development. "Geron is focused on developing products to treat age-related degenerative diseases. The availability of human embryonic stem cells opens extraordinary opportunities for tissue transplantation and for developing cell and gene therapy products with breakthrough medical potential."

The Wisconsin scientists started with week-old embryos, donated by parents who had successfully undergone test-tube baby treatment at the university's fertility clinic. The Johns Hopkins researchers used cells from older aborted foetuses.

The first transplant products are likely to be suspensions of specialised cells that would be injected into patients to reinvigorate failing organs. However, the Wisconsin researchers say clinical applications are "years, perhaps more than a decade, away".

Human tissue techniques, Page 8

France upbeat on defence merger

By Robert Graham in Paris

The French government yesterday predicted that the three-way European defence merger between British Aerospace, France's Aerospatiale and Germany's Dasa would go ahead in the first half of 1999.

Alain Richard, French defence minster, said in a radio interview: "There are all the necessary elements for a balanced agreement."

Mr Richard's upbeat remarks followed French government lobbying to head off threats by British Aerospace and Dasa to go it alone. In return, France seems ready to speed efforts to reorganise its defence industry.

In a move to allay British and German concerns about French government control over Aerospatiale, Paris has indicated it is willing to reduce the state stake well below the 48 per cent proposed in the privatisation process announced in July.

Paris is also promising to speed up a solution to the problem of Dassault, the civil and military aircraft manufacturer. The state's 46 per cent holding in Dassault is being transferred to Aerospatiale, but there is not yet an agreement on Dassault's industrial future.

Serge Dassault, the group's chairman, has so far refused to team up with Aerospatiale, even though the French state is the sole client for Dassault's advanced Rafale fighter. The government's hand has been strengthened by a recent legal opinion which said the state had a majority vote in Dassault because it enjoyed double voting rights on 20 per cent of the stock – a privilege that disappears when Aerospatiale is privatised.

In return, Paris is pleading for more time to conclude the privatisation of Aerospatiale that centres on the Lagardère group acquiring a one-third stake via the merger of its Matra defence interests. This is unlikely to be completed before next year.

The British and German groups have hinted it could proceed without Aerospatiale but keep a place open pending its privatisation. This proposal has been rejected by Lionel Jospin, the French premier.

France admits it is well behind in the reorganisation of its defence industries, but insists it is moving as fast as possible. Mr Richard warned against the destabilising consequences of a two-way British Aerospace and Dasa deal on the future of the Airbus consortium which is in the process of being turned into a shareholding company.

A British Aerospace-Dasa tie-up would hold 56 per cent of the financial Airbus consortium shares while Aerospatiale would still be responsible for two-thirds of production.

Indra sell-off, Page 25

WORLD MARKETS

STOCK MARKET INDICES		
New York Lunchtime		
Dow Jones Ind Av	8774.64	(–8.50)
NASDAQ Composite	1626.28	(+2.71)
Europe and Far East		
CAC40	3596.18	(–87.98)
DAX	4811.80	(–30.12)
FTSE 100	5479.8	(–143.1)
Nikkei	14,341.37	(–186.44)
US Lunchtime RATES		
Federal Funds	5.062%	
3-mth Treas Bills: Yld	4.53%	
Long Bond	102§	
Yield	5.320%	
OTHER RATES		
UK: 3-mo Interbank	6§%	(6§%)
UK: 10 yr Gilt	150.81	(150.83)
France: 10 yr OAT	133.84	(same)
Germany: 10 yr Bund	104.65	(same)
Japan: 10 yr JGB	108.39	(108.40)
NORTH SEA OIL (Argus)		
Brent Dated	$11.715	(11.865)

GOLD		
New York Comex	$294.8	(291.8)
London	$291.85	(290.55)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.6628	
DM	1.65995	
FFr	5.5668	
SFr	1.3631	
Y	117.80	
London		
£	1.6624	(1.6557)
DM	1.6661	(1.6695)
FFr	5.5591	(5.5976)
SFr	1.3692	(1.3693)
Y	117.085	(116.735)
Tokyo Close	Y 117.845	
Sterling		
DM	2.7584	(2.7638)

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EUROPE

RUSSIAN ECONOMY OFFICIAL SAYS FOREIGN DEBT OBLIGATIONS 'EXTREMELY UNLIKELY' TO BE MET IN FULL NEXT YEAR

Moscow may offer debt-for-equity swaps

By John Thornhill in Moscow

Russia may try to restructure its massive Soviet-era debts for the second time in two years and entice foreign investors into the "real economy" by offering creditors debt-for-equity swaps, a senior government banker said yesterday.

Andrei Kostin, chairman of Vnesheconombank, the government's agent for managing foreign debt, said it was now "extremely unlikely" Russia would be able to service its $17bn of external obligations in full next year. The government should therefore open discussions with sovereign and commercial creditors about alternative methods.

"My personal opinion is that over the next couple of years Russia will not be in a position to pay all its debt obligations in the same way as we hoped before," Mr Kostin said in an interview. "The sooner we tell the world about all this the better it will be for everyone."

Mr Kostin's comments came the day after Yuri Maslyukov, the first deputy prime minister in charge of the economy, first publicly raised the possibility that Russia might be forced to default on its external debts.

Russia has already missed $685m of repayments owed to sovereign creditors belonging to the Paris Club. It is also involved in talks with local and foreign creditors about restructuring the $40bn domestic treasury-bill (GKO) market which was frozen on August 17.

Mr Kostin said the government was still drawing up its 1999 budget but would probably have to prioritise which debts to service next year. IMF loans, post-Soviet eurobonds, and MinFin bonds (restructured Soviet-era bank debt) would top the list, he said, but much of Russia's Soviet-era debt might have to be restructured for a second time.

Mr Kostin said one of the proposals "boiling up" among foreign debt experts was that the government could offer creditors equity stakes in privatised companies. "We cannot expect a queue of foreign businessmen to take over these enterprises but some of them could be profitable under proper management, especially oil and food enterprises with export potential," he said.

Foreign investors said similar debt-for-equity swaps had been used successfully in some Latin American countries, such as Chile and Peru. But there was considerable scepticism about whether such a scheme would work in Russia.

"There are imaginative things that could be done to restructure the debt but not at a time of desperation," said Dirk Damrau, head of research at MFK Renaissance, a Moscow-based investment bank. "No-one wants Russian equities at the moment."

Mr Kostin conceded a debt-for-equity scheme would face practical difficulties but insisted it could be made attractive for both parties. "If we can strengthen the rules to protect investors and avoid the mistakes that we made in previous privatisations then I think this scheme would be possible," he said.

Deputy premier Yuri Maslyukov (left) checks papers as Georgy Boos (centre), head of the state tax service, addresses a cabinet meeting chaired by Yevgeny Primakov, the prime minister Reuters

Court confirms Yeltsin may not be re-elected

Russia's Constitutional Court yesterday ruled that President Boris Yeltsin could not seek the presidency again and must step down in the summer of 2000 after completing his second term of office, **John Thornhill writes.**

The decision, hotly debated earlier this year, has become something of an academic issue following the recent deterioration in Mr Yeltsin's health.

Dmitry Yakushkin, the presidential press secretary, said Mr Yeltsin had already made it clear he intended to step down at the end of his current term.

Other prominent politicians, such as Yuri Luzhkov, Moscow's populist mayor, and Alexander Lebed, governor of the Siberian region of Krasnoyarsk, have all but launched their electoral campaigns. Some commentators have suggested Mr Yeltsin risks becoming a "lame duck" for the rest of his presidency and may have to step down.

Russia's constitution, adopted in 1993, limits a president to two terms in office. Mr Yeltsin's supporters argued he had served only one term since the constitution was adopted and should be allowed to contest the presidency again.

Czech rating downgraded

By Robert Anderson in Prague

Standard & Poor's, the rating agency, yesterday downgraded the Czech Republic's long-term foreign currency rating to A-, responding to the country's deepening recession.

The agency also warned that the lack of progress in restructuring banks and companies and in improving the legal environment for business had made the economy especially vulnerable at a time of slowing global economic growth and low foreign investor confidence.

"Insufficient progress on restructuring the banking sector and many enterprises has left a relatively feeble base for economic growth, making the country susceptible to weakened exports in the context of the slowing global economy," S&P said.

The Czech economy entered recession at the start of the year under the impact of the central bank's tight monetary policy, big cuts in government expenditure last year and a collapse in consumer spending.

Czech gross domestic product fell 1.7 per cent year-on-year over the first two quarters and the central statistics office this week predicted it would decline 1.9 per cent for the year as a whole, growing by no more than 1 per cent in 1999.

The Social Democrat government, which took office in July, has proposed a Kc31bn ($1.1bn) deficit budget to kick-start growth, while the central bank has cut interest rates four times in recent months. Wider reform has been slow in coming due to political instability since the fall of Vaclav Klaus' government last November. The government is only now accelerating preparations for privatisation of the country's three troubled big banks.

S&P warns: "While some delays in banking privatisation can be expected... serious delays could further stress the financial system, which would place more serious fiscal costs on the government..."

The ratings agency yesterday also reduced the long-term local currency credit rating to AA and the short-term foreign currency rating to A-2, in each case all by one notch and with a stable outlook.

International Bonds, Page 32

METALWORKERS' FEDERATION CAMPAIGN TO SET UP EUROPE-WIDE PAY BARGAINING

Unions prepare Emu strategy

By Robert Taylor, Employment Editor, in London

European metalworker trade unions are hammering out a joint collective bargaining strategy in response to the arrival of the euro in January, according to a draft report prepared by the European Metalworkers Federation (EMF).

The federation claims to represent 7m metal workers from 25 trade unions in western and eastern Europe. Its plan of action is the first of its kind among European trade union organisations as they respond to monetary union. Union leaders meet in Frankfurt early next month where they are expected to endorse the strategy.

In the report the EMF admits unions are worried about the dangers to wages and collective bargaining as they come under "pressure of greater competition" after monetary union. They believe this could "exacerbate the risk of a downward spiral in wage-undercutting" and precipitate "social dumping" with companies moving production to lower cost countries.

The EMF accuses European engineering employers of using the arrival of the common currency to fragment wage bargaining at company, regional and national level and so weaken trade union power.

It calls on unions to agree an "active wage and distribution policy" to combat such a threat by co-ordinating a common bargaining agenda at the centre, while leaving affiliate unions in each EU state with enough "distribution space" for flexibility in the "improvement of wages and employment".

The strategy involves co-ordinating future wage claims based on safeguarding purchasing power, with additional pay increases for productivity gains. Metal unions in each country would have "full autonomy and responsibility" to negotiate on working time, training, new forms of work organisation, early retirement and equal treatment rules within agreed strategy.

The EMF calls for strengthening European works councils, established in more than 1,200 large companies inside the EU under EU regulation. It describes them as "pace-setters for social unification in Europe".

The EMF recommends a central role for its collective bargaining committee, to encourage the emergence of networks of unions across national frontiers within two years. The EMF is to develop a database of information on employment, productivity, inflation and growth at different levels of the European engineering industry. Its plan involves spearheading, where necessary, "joint transnational action" which could include strikes and demonstrations "to establish a pan-European wage and collective-bargaining policy".

Employers warn of rising taxes

By Emma Tucker in Brussels

European employers yesterday accused governments of damaging European Union competitiveness by allowing the overall tax bill on business to creep higher.

Unice, the EU industry federation, said it feared recent initiatives by the 15 member states to co-ordinate taxation would be used to level the tax burden upwards, rather than to reverse the trend.

They were also paying too little attention to the elimination of tax obstacles to cross-border business activities and investment. "Tax obstacles continue to stand out as one of the most glaring gaps in the operation of the single market," said Unice.

Unice fears that without a determined effort by member states to simplify and lower tax regimes, investors will shun Europe in favour of less expensive locations. The potential benefits of the single currency will also risk being blunted by tax obstacles.

Member states are currently discussing a tax package proposed by the European Commission that co-ordinates certain aspects of EU taxation in order to eliminate "harmful" tax competition – such as special havens offering lower corporation tax.

Member states complain that such havens siphon away valuable tax revenue, forcing them to tax non-moveable bases, such as labour, more heavily.

Unice argues that this approach incorrectly assumes that the business activities that benefited from such havens would have stayed within the EU under a "normal" system.

It also assumes the amount of lost revenue resulting from tax competition would allow a marked reduction of the tax burden on labour – "which seems to be an exaggeration of the budgetary effects" of such tax competition.

● Mario Monti, the single market commissioner, made it clear yesterday that he wanted to press ahead with a directive on taxing pension schemes "at the earliest possible opportunity", **Jane Martinson writes.**

However, he told a pan-European pension fund conference in Brussels that the Commission's approach had to be flexible to take account of the "diversity" of tax systems in the 15 member states.

"What we are aiming for is co-ordination of the rules already in place... not harmonisation."

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Aliens rush for Italian permits

Tens of thousands of desperate illegal immigrants queued up at police stations throughout Italy yesterday, each hoping to receive one of 38,000 residence permits made available under a new law, **Reuters reports from Rome.**

To win an interview with a police official, the immigrants must prove they have been in Italy since before March, have a promise of a job and a place to live, and have had no brushes with the law.

Most of the immigrants come from Albania, Sri Lanka, Pakistan, China, Nigeria, Senegal and the Philippines.

The new immigration law will allow 38,000 immigrants already in the country to become legal. Some experts, such as the Roman Catholic charity group Caritas, conservatively estimate there are at least 230,000 illegal immigrants in Italy and say the 38,000 new permits would not be enough to satisfy those living in Rome and Milan alone.

Illegal immigrants in Milan mob a policeman distributing application forms for Italian residence permits yesterday AP

Swiss report uncovers a history of anti-semitism

By William Hall in Berne

A government report released yesterday has debunked Switzerland's self-image as a humanitarian oasis in the heart of Europe, and says a wave of anti-semitism has followed the recent debate over the role of Swiss banks in the second world war.

The Federal Commission against Racism (FCR), in the first official report on anti-semitism Switzerland has ever produced, portrays a society in which latent anti-semitism is entrenched, fuelled by a traditional fear of being overrum by foreigners.

Anti-semitic prejudices, stereotypes and attitudes are still widespread and re-emerge during times of crisis, such as the highly charged debate about the role of the banks in financing the Nazi war machine.

The banks reached a $1.25bn settlement last August to end class action suits brought against them by Jewish Holocaust survivors. But this has only increased resentment in some sections of the population.

Recent comments by some high-ranking politicians had encouraged anti-semitism and given it a "patina of social acceptability", the report says. It is especially critical of the late Jean-Pascal Delamuraz, a former Swiss president, who equated the demand of Jewish organisations for a Swiss compensation fund to benefit Holocaust victims with "blackmail".

Such claims opened a "floodgate for old anti-semitic clichés", the report says.

In 1997, a wave of anti-semitism manifested itself in letters to Swiss newspapers, threatening letters to prominent Jewish organisations, and in everyday situations in which Jews were insulted and ostracised. Opinion polls registered an increase in negative attitudes towards Jewish citizens.

Almost half the complaints filed for infringement of Switzerland's anti-racism laws concerned anti-semitism.

Doris Angst Yilmaz, secretary-general of the FCR, said it was important for Switzerland to line up with European history and not regard itself as a special case, as it has traditionally been portrayed.

The 72-page report chronicles a long history which starts with the persecution of Swiss Jews during the plague of 1348. It covers issues such as the continuing ban on the kosher slaughter of animals, and the anti-semitic attitudes which underpinned the Swiss government's wartime refugee policy, when thousands of Jewish refugees were turned away.

Turkey says EU recognises candidacy

By Christopher de Bellaigue in Ankara

Turkey yesterday reacted positively to what it saw as its inclusion by the European Commission among the candidates for EU membership, raising hopes of a thaw in relations between Brussels and Ankara.

Ismail Cem, Turkey's foreign minister, said the Commission's decision to "recognise Turkey's candidacy by recognising it as one of 12 candidates" would "open the way for an improvement in relations".

His comments followed the publication on Wednesday of a report into Turkey's progress towards meeting membership criteria. The report, which appeared on the same day as reports on central and east European aspirants and Cyprus, carefully avoids referring to the number of candidates. But the fact that it was included at all has convinced Ankara that last December's decision to suspend political dialogue with the EU has paid dividends.

That decision was taken after the European summit in Luxembourg appeared to leave Turkey out of the enlargement process. Mr Cem called the latest news "an example of what serious foreign policy can achieve".

His words have raised hopes that Turkey intends to resume political dialogue with the Commission on sensitive items such as Cyprus and Turkey's treatment of its Kurdish minority.

Karen Fogg, the Commission's representative to Turkey, insisted yesterday that the Commission's position had not changed, though she said the release of the progress report on Turkey "confirms the fact that there are 12 candidates".

It does not, Ms Fogg also pointed out, lessen the distance the Turks must travel to meet the EU's criteria. The report draws attention to Turkey's "persistent violations of human rights and important deficiencies in the treatment of civilians".

Danes set to rule out euro vote

By Tim Burt in Stockholm

The Danish government is this weekend likely to rule out a referendum on participating in European economic and monetary union (Emu) for at least two years.

Poul Nyrup Rasmussen, Danish prime minister, is expected to tell his counterparts from Sweden, Norway, Finland and Iceland on Sunday that signs of growing Danish enthusiasm for the single currency, the euro, do not justify a referendum before the turn of the century.

"I do not foresee a referendum in the next two to three years," Mr Rasmussen said in an interview. "We do not want to conduct a referendum before we can demonstrate to most people that the single currency would be of benefit to Denmark."

A recent opinion poll in Denmark showed that 50 per cent of those questioned favoured Emu, the highest level in recent years, with 38 per cent against and 12 per cent undecided.

The prime ministers and finance ministers of the five Nordic countries are due to discuss implications of the single currency at a specially convened meeting in Oslo on Sunday.

The talks – scheduled to precede next week's inter-government Nordic Council meeting in Norway – have been called at the request of the Swedish government, which has also ruled out participation in the first wave of currency union.

Göran Persson, Swedish prime minister, will tell Nordic leaders that Sweden has not made any decision on the timing of an Emu referendum. Senior Swedish officials, however, have made clear that a referendum will not take place before completion of an Emu information campaign due to run for most of next year.

The wait-and-see approach adopted by Sweden and Denmark will be thrown into sharp contrast with the euro-enthusiasm of Finland, a founder member of the single currency.

Finnish officials said yesterday Paavo Lipponen, the premier, would underline the euro's benefits at Sunday's meeting. "We hope the countries that are out will find it possible to join as soon as possible," said a government spokesman.

Meanwhile, Kjell Magne Bondevik, Norwegian prime minister, has made clear there is no prospect in the medium term of Norway reconsidering its 1994 decision to remain outside the EU: "The last debate and referendum were very tough and there is no appetite to have another referendum within the current parliament."

Both Norway and Iceland are outside the EU, but remain members of the European Economic Area.

Bonn plans hit by economic chill

By Tony Barber in Frankfurt

Take one look at the derelict buildings and potholed roads of Leipzig's grimy suburbs, and it is instantly clear why yesterday's Bundesbank council meeting was more than an abstract dispute about monetary policy.

Eastern Germany's cratered urban moonscapes, inhabited by thousands of youngsters who have never held a regular job, are a blot on society that Chancellor Gerhard Schröder and his finance minister, Oskar Lafontaine, want to erase.

Nor is it just in the former communist east that the new Social Democrat-Green government faces challenges. Even in the more prosperous west, the economy is slowing to the point at which forecasters say unemployment in Germany is likely to stay close to 4m throughout 1999.

Big industrial companies expect weaker export growth and a drop in profit margins next year, largely as a result of falling US orders and the crisis in south-east Asia and other emerging markets. Foreign orders for machinery products alone fell by 35 per cent in September compared with the previous year. Businessmen are less confident about the future.

Earlier this week, the government took stock of these deteriorating conditions and reduced its prediction for economic growth next year to 2.0 per cent from the 2.9 per cent forecast by its predecessor. Some private economists say growth could even drop under 2 per cent.

It is hardly surprising, then, that Mr Schröder and his colleagues are worried. Elected partly because of their promises to put people back to work, they are discovering to their dismay that they may not be able to achieve much in their first year in office because the economic climate has turned unexpectedly chilly.

In the government's view, one especially useful contribution would be an interest rate cut by the Bundesbank or the European Central Bank, which will assume control of monetary policy in the 11-nation euro-zone from next January. The snag is that the Bundesbank and ECB are supposed to be independent of political pressure.

But even if the politicians wrested influence over monetary policy, both central bankers and industrialists say a cut in rates alone is unlikely to work wonders for the economy. Japan's reduction of rates to almost zero has done little to cure deep-rooted financial and economic problems, they say.

As for jobs, what is needed is not so much lower rates as the removal of tax and social security burdens on employers, they add. The government is to lighten these charges by 2002, but they will remain higher than in Germany's competitors.

Some economists say the government is to a certain extent pushing at an open door when it argues for an interest rate reduction below the current Franco-German benchmark rate of 3.3 per cent.

In the euro-zone as a whole, monetary policy is already less tight than when the German government was elected in September.

Recent cuts in Italy, Spain and elsewhere imply an overall easing of 0.75 percentage points in the last three months of this year, and economists expect the ECB to bring the benchmark euro rate down to 3 per cent by next spring.

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Gerhard Schröder (right) meets Poland's prime minister, Jerzy Buzek, in Warsaw yesterday. The German chancellor promised to press for speedy EU reform to enable enlargement Reuters

Danish interest rates fall quarter point

By Clare MacCarthy in Copenhagen

The Danish central bank yesterday cut its key interest rates by one quarter of a percentage point each, bringing the discount rate to 4 per cent and the repo rate to 4.40 per cent.

The decision, which followed a series of rate cuts across Europe, was welcomed by financial markets in Denmark, which had been expecting the move but were surprised by the extent of the cut. Two earlier recent cuts were by as little as 0.1 percentage points.

Denmark is not among the 11 countries that will adopt the euro in January, and therefore is not under pressure to converge with the 3.3 per cent interest rates in Germany and France. Kirsten Mordhorst, central bank deputy director, said the cut was related, rather, to developments in the foreign-exchange markets.

As recently as September 18, the central bank raised the repo rate by a full percentage point, and the discount rate by half a percentage point, in an effort to strengthen the krone. The central bank spent the equivalent of DKr37.3bn ($6bn) to defend the currency when it fell victim to world market turbulence in late August and September.

Yesterday's cut suggests the Danmarks Nationalbank is now more comfortable with the foreign reserves situation, said Jakob Vejlo, chief analyst at Unibank. Earlier this week the central bank said it had bought foreign currency to the tune of DKr10.9bn during October.

Now, with the lid apparently lifted from the speculative pressure against the krone, analysts expect further interest rate cuts. The discount rate could fall to perhaps 3.75 per cent and the repo to 4.00 per cent before the end of the year, Mr Vejlo said.

Doubts persist despite fall in jobless

German unemployment fell last month to its lowest for two years, but a seasonally adjusted drop in orders for manufacturing industry in September sowed new doubts about the economy's strength, writes Peter Norman in Bonn.

Jobless figures which would have been hailed as a triumph by the government of Helmut Kohl were treated cautiously by Gerhard Schröder's new Social Democrat-led coalition.

Bernhard Jagoda, federal labour office head, ranked economic recovery fourth among factors explaining last month's 73,700 drop to 3.89m in the important unadjusted jobless total. He said job creation in eastern Germany, a shrinkage of the pool of employable labour and modernisation by businesses contributed to the fall to 10.1 per cent in October from September's 10.3 per cent and 11.2 per cent in October last year.

The Bundesbank's seasonally adjusted data painted a less flattering picture of a 43,000 decline in unemployment to 4.11m, or 10.6 per cent of the labour force, last month.

Weak demand for east German products caused manufacturing industry's seasonally adjusted orders to fall 0.5 per cent in volume in September.

NEWS DIGEST

SEPARATIST LEADER HAILED

Greek invitation to Kurd likely to anger Turkey

In a move likely to infuriate arch-rival Turkey, more than a third of the Greek parliament yesterday renewed an invitation to Abdullah Ocalan, the Kurdish separatist leader, to visit Greece.

The invitation, signed by 109 deputies, called Mr Ocalan – viewed in Turkey as a terrorist – "the leader of the world's most oppressed people".

The vote comes only a day after the Russian Duma urged the Moscow government to grant asylum to the leader of the Kurdistan Workers party (PKK), who Turkey believes is hiding in the Russian capital.

Turkish newspapers yesterday bitterly attacked Moscow over the Duma's overwhelming vote. But Russia's Interfax news agency yesterday quoted Sergei Stepashin, Russia's interior minister, as saying that Moscow would not grant asylum to Mr Mr Ocalan. **Reuters, Ankara**

BASQUE SEPARATISTS

Eta reaffirms ceasefire

The Basque separatist organisation Eta yesterday reaffirmed the ceasefire it announced seven weeks ago, and welcomed recent elections which gave its political allies almost 18 per cent of the vote in the Spanish Basque region.

Its reaction to the October election result fulfilled one of the conditions set by the Madrid government for the start of peace talks – acceptance by Eta of democratic procedures.

However, in a statement published in the Basque language in two regional newspapers, Eta made clear it was not yet ready to declare a permanent end to its armed campaign. That, it said, would depend on "forthcoming events". **David White, Madrid**

FRENCH PROTESTS

Fewer students turn out

High-school students seeking more teachers and smaller classes launched a third wave of protest marches across France yesterday, but Lionel Jospin, prime minister, insisted their demands had already been met.

Only a few hundred students showed up for the start of the latest Paris march, far fewer than the 28,000 who packed the capital's streets at the first protest on October 15.

There were fresh protests in many other cities, including Marseilles, Bordeaux, Clermont-Ferrand, Rennes and Toulouse, but the turnout was also well below that of earlier demonstrations. **Reuters, Paris**

DUTCH PLAN

Teenage investment fund

Robeco Group, the Netherlands' biggest manager of client funds, yesterday said it was launching an investment fund aimed at 12-to-19-year-olds.

The YoungDynamic fund is a portfolio of 60 or 70 stocks, well known to young people, chosen by a Robeco fund manager from a larger pool of 400-500 stocks.

Two-way communication via a special website will allow investors to influence the stocks which are included in the wider pool and put questions to the fund manager, who will explain the performance of the portfolio. The fund is otherwise no different from any other Robeco product.

The subscription period for the fund is November 7-27. From Saturday, details will be available on the Internet at www.youngdynamic.nl

A share in the YoungDynamic fund costs Fl 25 ($13) and it will begin trading on the Amsterdam bourse on December 1. Robeco will charge an annual management fee of 0.8 per cent. **Reuters, Rotterdam**

SPENDING CUTS

Hungary train plan cancelled

Hungary's government yesterday cancelled a Ft 160bn ($744m) subway project in Budapest, in an attempt to reduce state expenditure.

"In the present situation [the government] cannot afford to support an investment of this size," Gabor Borokai, a government spokesman, told a news conference after the weekly cabinet meeting.

But Gabor Demszky, Budapest's mayor, said the government's decision would have both legal and financial consequences as Budapest and the government had a valid contract with the European Investment Bank.

In April Peter Medgyessy, the previous Socialist-led government's finance minister, signed an Ecu200m ($236m) loan agreement with the EIB to fund the construction of the capital's fourth underground line. **Reuters, Budapest**

Thai bank asset auction to go ahead

By Ted Bardacke in Bangkok

Thailand yesterday announced the world's "biggest ever one-day asset sale" for next month when it will auction $10.5bn in loans seized last year from bankrupt finance companies.

The announcement allayed growing concerns that the government might delay the auction, a process considered crucial to economic recovery, because of the low prices the Financial Sector Restructuring Authority (FRA) is expected to receive when it goes ahead on December 2. The FRA has already sold Bt76bn ($2bn) of loans at 48 per cent of face value and has won international praise for its quick and market-friendly handling of the loan portfolio.

However, some Thai bankers and politicians have argued that with the country on the verge of an economic recovery, the government should wait until asset prices perk up before selling the last loans, most of which are backed by property collateral.

Banks are worried that the auction will drive down the market value of their own collateral, thus making write-offs of bad loans more expensive. Debtors and their political allies are worried that transfer of their debts to commercial entities will hasten foreclosure.

The institution that will take over debts the FRA cannot sell at a fair price implied last month that it was willing to pay more for some types of loans than commercial buyers have already paid. The Asset Management Company's move prompted complaints among some coalition government members that they would be accused of selling assets too cheaply – to the detriment of the taxpayer.

But Amaret Sila-On, chairman of the FRA, said yesterday that the auction would proceed. "The liquidation of assets is part of economic recovery," he said. "The Japanese didn't take decisive action [with their bad debt] and eight years later they are paying the price. Part of the objective of this exercise is to rebuild confidence."

FRA officials said they had set reference – but not minimum – prices for the loans. If bids came in below the reference price, they would consider the number of bidders to determine if they had received a "market bid". A bid well below the reference price made by just one or two bidders probably would not be accepted.

The loans are divided up into 16 small tranches worth between Bt2bn and Bt7bn each, 10 medium tranches worth between Bt11bn and Bt18bn each and six large tranches of between Bt23bn and Bt36bn each. The small and medium size loans are grouped by borrower industry. In addition, three special tranches worth Bt21bn have been formed at the suggestion of certain bidders, including GE Capital of the US and The Pavilion Fund, a joint-venture between the family of the former US president George Bush and Thailand's CP Group.

Companies which want to bid on numerous tranches but do not have enough capital to take the risk of winning every bid can submit multiple prioritised bids which will be disqualified once a certain capital commitment has been reached.

Mahathir in overture to Singapore

By Sheila McNulty in Kuala Lumpur

Mahathir Mohamad, the Malaysian prime minister, made amends yesterday with Singapore – the rival he has antagonised for months – as pressure grew on him over his unorthodox political and economic policies.

Dr Mahathir invited Goh Chok Tong, Singapore's prime minister, for a one-day visit following expressions of concern from his normally docile Asian neighbours, Indonesia, the Philippines and Thailand, over the treatment of Anwar Ibrahim, the former deputy prime minister.

Dr Mahathir sacked Mr Anwar for having "low morals" and Mr Anwar was subsequently seized under the Internal Security Act, permitting detention without trial. Mr Anwar was held for nine days incommunicado and emerged with a black eye only to be denied bail. He is now on trial for 10 charges of corruption and sodomy.

Mr Anwar says there is a conspiracy to undermine him for becoming a Mahathir rival. Tens of thousands of Malaysians have staged unprecedented protests, demanding justice for Mr Anwar and the resignation of Dr Mahathir.

The prosecution's first witness, intelligence chief Mohamed Said Awang, testified yesterday he had reported to Dr Mahathir that he believed the allegations against Mr Anwar were politically motivated and that Daim Zainuddin, a top Mahathir aide and Anwar rival, was involved. He also confessed that he might lie under oath if ordered to do so by his superiors. A day earlier, Mr Mohamed had said Mr Anwar ordered him to force two people to retract allegations of sexual misconduct using secret police methods.

Malaysia's political crisis comes amid a steep economic recession that led Dr Mahathir to impose capital controls in an attempt to revive the economy without enduring punitive investor reaction.

But a banking source indicated yesterday matters were not proceeding smoothly. The central bank threatened to force out the heads of commercial banks that did not meet its requirement for 8 per cent loan growth by the year's end, the source said. Banks are reluctant to lend for fear of adding to mounting non-performing loans. "It's management by fear," the source said.

Malaysia refused to seek assistance from the International Monetary Fund, as its neighbours have, and withdrew fund-raising plans in the global bond market because the premium demanded was too high.

Singapore, which has withstood the regional crisis more successfully, depends on Malaysia for trade and tourism and, therefore, wants its neighbour to recover. It was an obvious place for Dr Mahathir to turn despite months of bickering over a range of issues, including the location of a border checkpoint.

"We talked specifically on how Singapore can be of help to Malaysia during this economic crisis," Dr Mahathir said after meeting Mr Goh. Mr Goh said the details would be worked out. In return, Dr Mahathir agreed he and Mr Goh would not attack each other's country.

Japanese tax cuts 'unlikely' by January

By Michiyo Nakamoto in Tokyo

The Japanese government is unlikely to be able to implement much-awaited tax cuts by January, the top government spokesman has warned.

"As I understand it, it would be impossible to complete procedural matters to implement [the tax cuts] from January," the chief cabinet secretary, Hiromu Nonaka, said yesterday. He blamed a tight parliamentary schedule.

Mr Nonaka's statement dashed hopes that the government would take quick action to implement promised cuts in income and corporate taxes, of about Y6,000bn ($51bn), in order to stimulate the economy. The news was one of the biggest factors behind yesterday's fall in the Tokyo stock market. The Japanese business community, in particular, has pressed the government to implement tax cuts from January in order to boost flagging corporate activity.

Koji Tanami, vice-finance minister, confirmed Mr Nonaka's view that the debate on tax cuts would have to wait until the regular Diet session that begins in January. "Technically speaking, large-scale tax cuts would require various discussions in a tax panel and... it is difficult," he said.

The ruling Liberal Democratic party had initially aimed to deliberate the tax cuts, together with a planned Y10,000bn economic stimulus package, in the emergency Diet session to be convened at the end of the month. In addition to permanent tax cuts, the government is considering special breaks on housing loans to stimulate the property and building markets.

However, the government was forced to delay the start of the emergency Diet session because of a tight diplomatic schedule in November. Keizo Obuchi, the prime minister, is scheduled to go to Moscow next week, and later in the month he will receive Bill Clinton, the US president, and Jiang Zemin, China's president, in Tokyo.

The delay to the tax cut plan comes amid signs of falling consumer spending. Government statistics released yesterday showed household spending in September fell by an inflation-adjusted 1.5 per cent year-on-year for the 11th consecutive month.

This is the longest streak of monthly declines in household spending since the Management and Co-ordination Agency started collecting statistics in their current form in 1963.

The outlook for spending continues to look grim as 17 of the country's main electrical machinery makers proposed a cut in winter bonuses, which would represent the biggest decline in nearly 30 years. If accepted by the unions, as expected, the proposed decline in bonuses by the influential industry would almost certainly have an impact on other bonus negotiations.

The ruling party is also undecided on the scope of a shopping coupon scheme that the government is considering as part of its economic package to be announced later this month.

Meanwhile, Osamu Watanabe, vice-minister for international trade and industry, indicated yesterday that fiscal spending of up to Y28,000bn between now and March 2002 would be needed to achieve gross domestic product growth of 2 per cent.

Tokyo aims for final frontier

By Michiyo Nakamoto

With its domestic economy mired in recession, the Japanese government is hitching its hopes to the stars.

Tokyo is planning to launch four domestically developed satellites as part of a Y10,000bn ($85bn) emergency plan to kickstart the flagging economy.

A proposal for launching four satellites by 2002 has been outlined in a report compiled by the government and to be submitted to a cabinet meeting today for approval.

The satellites would be developed by public and private Japanese organisations using domestic technology at a cost of between Y150bn and Y200bn. To avoid infringing a Japanese parliamentary resolution that space can be used only for peaceful purposes, the satellites would be used not only for intelligence purposes but also to monitor natural disasters, goods smuggling and illegal immigration.

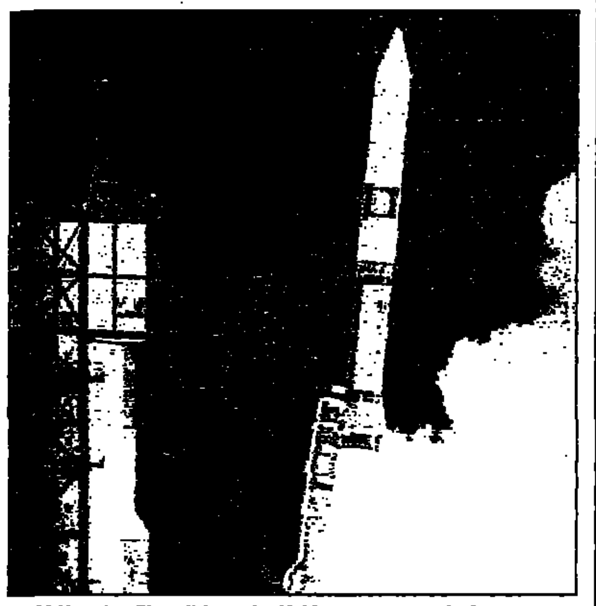
The satellite plan answers widespread public calls for Japan to have its own intelligence satellites following the launch of a North Korean rocket over Japanese territory. Although North Korea insists that the rocket was carrying satellites that were to broadcast songs in praise of Kim Jong-il, the North Korean leader, throughout space, the Japanese government has insisted that it carried a ballistic missile.

Ironically, the North Korean move may not only help stimulate the economy, it may also help reverse Japan's far from stellar reputation in the aerospace industry.

The Japanese authorities have long held ambitions to develop a world-class space industry. However, in spite of its engineering prowess and its long-term experience in aerospace development with industry leaders such as Boeing, Japan's experience with rockets has been far from happy.

Japan launched its first two-tonne geostationary satellite earlier this decade, on a home-made H-2 rocket built entirely with Japanese technology. However, the satellite, which cost taxpayers Y41.5bn, did not reach orbit, so it could not conduct most of the tests it was launched for.

Japan has also been faced with a need to respect the sensitivity of its Asian neighbours, who remain suspicious of any Japanese developments that could be interpreted as having military aims.



An M-V rocket lifts off from the Uchinoura aeronautical space centre in southern Japan in February last year AP/Kyodo

Apec urged to spur growth

By Peter Montagnon and Gwen Robinson in Sydney

An international panel of experts has urged Asia-Pacific leaders to adopt concerted fiscal and monetary stimulus measures to tackle the region's economic crisis.

The panel reports regularly to leaders of the Asia-Pacific Economic Co-operation (Apec) forum, who have adopted some of its ideas in the past. Its latest report, sent to leaders last week, was completed in advance of the Kuala Lumpur summit this month.

The panel, chaired by Fred Bergsten, a US trade specialist, argued that the strategy of export-led recovery had failed. Stimulation of domestic demand by fiscal and monetary initiatives, equivalent to 2 per cent of each country's gross domestic product, would boost growth in the crisis-ridden countries by 4 per cent next year. The required external finance, amounting to some $20bn, "is readily available" from the credit lines promised by Japan to the countries hit by recession.

By urging concerted action, the report built on trends already under way in parts of Asia. Monetary stimulus would be more likely to succeed if all countries moved together, the panel said. This would limit the risk of renewed currency depreciation facing countries which tried to cut interest rates unilaterally.

"A concerted Asian recovery programme would provide a dramatic centrepiece for the leaders' meeting," it said. "Apec would succeed where the International Monetary Fund and World Bank, at their recent annual meeting in Washington, failed to produce a coherent strategy."

As part of the plan, the US should cut its interest rates "much further" while Japan should implement its proposed tax cuts and fundamental bank reforms "aggressively". But the panel also warned that backsliding on last year's commitments to accelerate free trade in nine specific sectors would generate widespread doubts on Apec's commitment to market reforms.

However, Masahiko Komura, Japanese foreign minister, yesterday again rejected pleas to liberalise his country's trade in forestry and fishery products during a meeting with Alexander Downer, his Australian counterpart.

While the panel's plan will appeal to leaders desperately searching for means to revive their shrinking economies, some governments, notably that of South Korea, have been cautious about fiscal expansion.

The panel also suggested the leaders should adopt an agenda for next year's Apec summit in Auckland. This would include work on an investment code and a competition policy framework as well as an "efficient food system" designed to improve food security through measures to liberalise trade, promote rural employment and share technology.

New Zealand reflects on PR

Peter Montagnon reports that leaders of both main parties favour the voting system change and new emphasis on coalitions

New Zealand's wide-ranging economic reform over the past 15 years would have been difficult to push through had the country already had a proportional electoral system at the outset, according to Jenny Shipley, the prime minister.

"I don't think it would have been easy to do that in a proportional system," she said in an interview, pointing to the radical changes to monetary, fiscal and welfare policy. German-style proportional representation (PR), introduced two years ago in New Zealand "has yet to be tested in the most difficult of times".

Nonetheless the system had given New Zealand a more representative parliament, and its merits outweighed the risks, Mrs Shipley said.

New Zealand's last election in 1996 was the first conducted under proportional representation, which is therefore still, in effect, on trial. The acrimonious collapse of the coalition between Mrs Shipley's National party and the minority New Zealand First party in late August has prompted a fresh bout of public scepticism just as the UK is pondering a similar transition to an electoral system containing elements of proportional representation.

But leading politicians have concluded there is no going back, although the system needs to operate better. Both Mrs Shipley and Helen Clark, leader of the main Labour opposition party, see a flaw in the rigid coalition agreement drawn up between National and New Zealand First after the 1996 election.

In fact the coalition worked well most of the time, but the agreement, which tied the government down to a detailed programme, gave the media an unnecessarily large stick, said Mrs Shipley. "Everything we did which was less than what we said we would do was seen as a failure," she said.

Mrs Clark said she would opt for a looser agreement in any future coalition with the leftwing Alliance party. This would allow flexibility in discussion of future policy even if collective cabinet responsibility means the coalition would have to stick together once a decision was made.

She added that, for the sake of longer-term stability she would probably seek a coalition with the Alliance even if she won an outright majority in the 120-seat parliament. But the smaller party would have to recognise its influence was limited by its small share of the national poll.

Both leaders believe that despite the sometimes violent emotions in New Zealand politics, coalitions can lead to stable government – one of the big worries about proportional representation.

Ms Shipley says her present short and general agreement with the right-wing ACT party and independent members of parliament, who are supporting her minority government has created a "much more constructive environment," which was less veto-driven and more collaborative than the deal with New Zealand First. That should see the government through till the regularly scheduled election date in a year's time.

The coalition collapse led to expectations of an early election, possibly after an important confidence vote in February, but Ms Shipley said the assumption that elections must follow lost confidence votes belongeds to the old first-past-the-post electoral rhetoric. Under proportional representation there should be room to regroup, so elections after a lost vote were not automatic.

Her desire to hold out for another 12 months is understandable given that Labour has nearly 50 per cent in the polls, while National trails at 35 per cent.

In a year's time the economy may be recovering from its present recession, and Mrs Shipley believes Labour, which is boosted by the recent unpopular government decision to cut pensions, has peaked too early. Its popularity will decline once the tax implications of its own programme become clear, she said.

Unsurprisingly Mrs Clark disagrees. Mrs Shipley's government looks like that of John Major in the UK, desperately delaying an election till the last possible moment, but "for the foreseeable future there is not going to be much feel-good factor," she said.

With or without proportional representation, it seems some political exchanges never change.

NEWS DIGEST

CHINESE TAX EVASION

Authorities crack down on fraud, corruption

Chinese authorities have arrested 89 provincial officials and sentenced one tax inspector to death after the discovery of what state media are calling the largest tax fraud in China's history. Government officials and hundreds of businesses conspired to dodge taxes using counterfeit invoices valued at RMB6.3bn ($760m) between 1994 and 1997, the official Xinhua news agency reported yesterday.

The crackdown on tax fraud is part of a wider campaign against corruption, which is sapping both fiscal revenue and government credibility. The full extent of tax evasion in China is unclear, but thought to be very widespread. In 1994 and 1995, total taxes evaded came to RMB62.4bn, according to reports.

In a separate corruption case reported yesterday, a former senior Communist party official from the southern island of Hainan was sentenced to death for accepting $226,000 in bribes and illegally amassing $1.2m in property. **James Harding, Shanghai**

SPRATLY ISLANDS

Manila protests to Beijing

Manila has lodged a diplomatic protest with Beijing over its presence in part of the disputed Spratly Islands in the South China sea.

The Philippines said the move followed the sighting of Chinese naval ships, including two armed military vessels, in the Mischief Reef region where China is building several structures. Jerry Barican, Philippine presidential spokesman, said the Chinese intrusion was a clear violation of a code of conduct agreed between the two countries.

The Spratlys are claimed in part or whole by China, Vietnam, the Philippines, Malaysia, Taiwan and Brunei. The islands are believed to have significant oil and natural gas reserves. **Tony Tassell, Manila**

INDONESIAN POLITICS

Demonstration boosts Habibie

Some 25,000 pro-government demonstrators massed yesterday in Jakarta, dwarfing opposition protests and boosting President B.J. Habibie's chances of persuading the country's political machine to back him next week.

The protesters gathered in a soccer stadium in support of next Tuesday's meeting of the People's Consultative Assembly, which is expected to approve Mr Habibie's policies and call general elections for next year. The turnout far exceeded recent demonstrations by students who want to block the assembly, force Mr Habibie to resign and appoint a transitional government.

Amien Rais, a Moslem leader whose party is expected to do well in the elections, separately criticised the assembly for being dominated by those loyal to former president Suharto and for planning to keep allotted seats for the military in the next parliament. **Sander Thoenes, Jakarta**

ASIAN DEVELOPMENT BANK

New president elected

The Asian Development Bank has elected Tadao Chino as its new president. Mr Chino is a former Japanese vice-minister of finance for international affairs. In 1964, he was the officer in charge at a United Nations body – the Bangkok-based Economic Commission for Asia and the Far East – for planning and preparing the establishment of a regional development bank.

Mr Chino is currently chairman of the board of counsellors at the Nomura Research Institute. He will take over as president of the ADB on January 16. **Tony Tassell, Manila**

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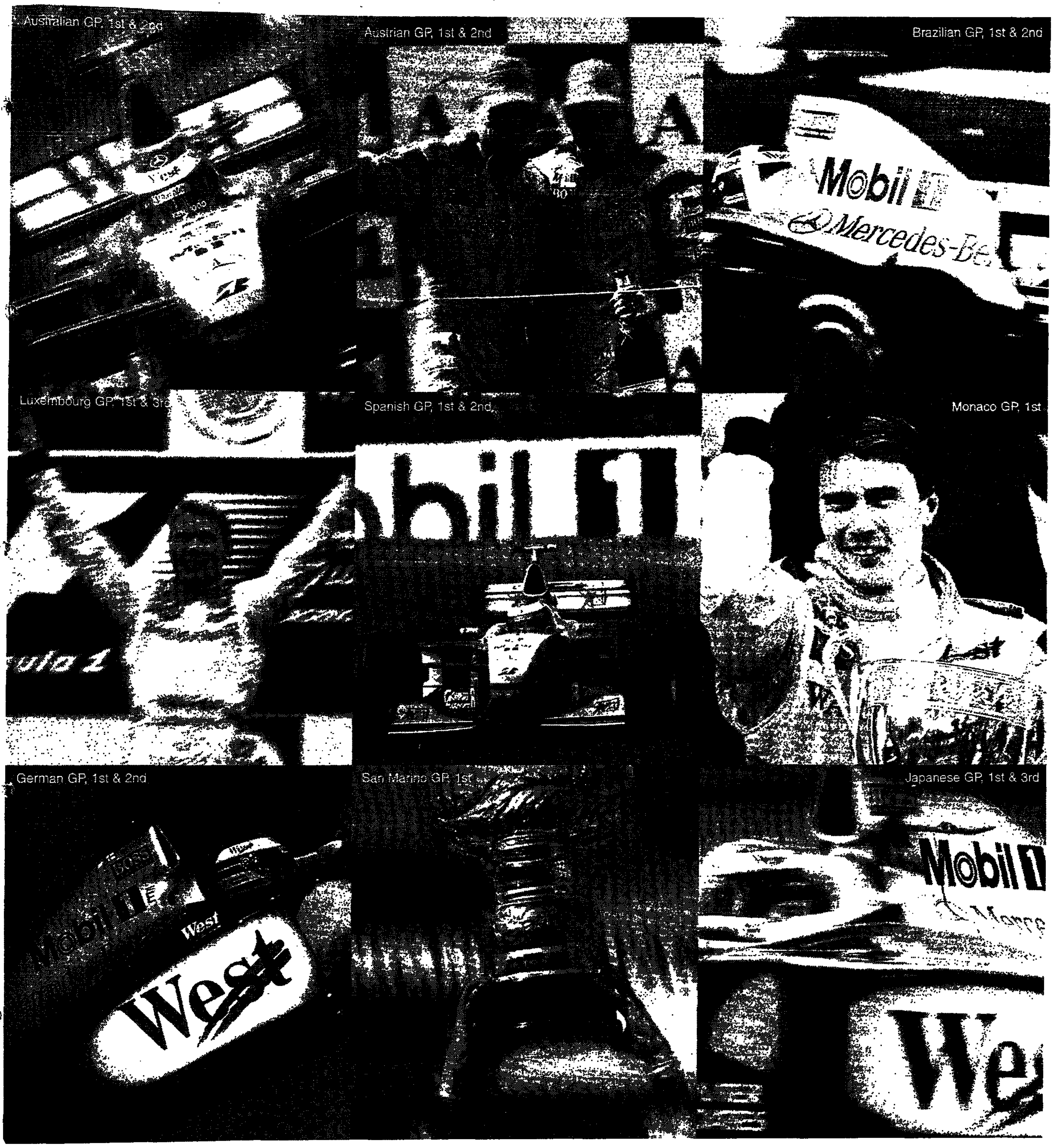
Mahathir in
)verture
:o Singapore

Authorities crack down
on fraud, corruption

Manila protests to Beijing

Demonstration

New president elected



Mercedes-Benz and Mobil 1. And won and won and won and won and won and won and won and won.

The Formula 1 World Championship is one of the longest, most grueling seasons in sport, and this year the West McLaren Mercedes team not only won, it dominated—winning 9 of 16 races and 12 pole positions. Mobil is thrilled to have played a key role. The screaming Mercedes engines (over 16,000 rpm) not only use Mobil 1 technology, it gives them a significant horsepower gain. The results speak for themselves. Our hats are off to all involved, especially Mika Häkkinen, the new World Driving Champion, and his teammate David Coulthard. And of course to our partner Mercedes-Benz, who's also known for cars that carry more than one person. Mobil 1 is the only motor oil recommended for the AMG/Mercedes-Benz, to help their drivers arrive safely and on time, too. Visit us at www.mobil.com.

Mobil The energy to make a difference.

MID-TERM ELECTIONS HOUSE STILL LIKELY TO HOLD UP 'FAST TRACK' NEGOTIATIONS FOR FREE TRADE AREA AND WTO AGREEMENTS

Poll wins may not ease Clinton trade plans

By Nancy Dunne in Washington

The results of the mid-term elections, deemed a victory for astonished Democrats, will not make it any easier for President Bill Clinton to achieve his ambitious trade agenda next year.

The House of Representatives is the key to making any progress on liberalising trade. In September it failed miserably – by a vote of 243 to 180 – to give Mr Clinton the so-called fast track authority which he needs in order to negotiate hemispheric free trade area deal and for new accords in the World Trade Organisation. The Senate, by contrast, was able to agree on fast track fairly easily.

Although Democrats gained five House seats, Republicans still chair committees in the House, and there are no important changes expected in committee assignments. Ways and Means will continue to have jurisdiction over most trade bills. Congressman Bill Archer, a committed free trader, will continue as chairman with Congressman Phil Crane, another free trader, as chairman of the trade subcommittee.

Members of Ways and Means generally favour trade liberalisation, but they are not representative of the rest of Congress. Increasingly, anti-trade populists are joining the Republican ranks. Democrats are demanding that trade be expanded to include environment and labour rights issues, which makes the business community uneasy.

Many Congressional districts are strongly in favour of liberalised trade. Consumers for World Trade, a pro-trade group, issued a "score card" for members of the current Congress, evaluating them for them on their support of fast track and new trade initiatives, as well as trade sanctions and reforms of protectionist programmes.

The highest scorers were all re-elected. More than 25 per cent of those who were rated the lowest either resigned or defeated.

This says nothing, of course, about the 39 newly elected members, whose positions have yet to be ascertained. The Democrats, however, are heavily in debt to labour groups whose turn-out drive was responsible for many of the victories. Labour is against most trade initiatives. It has begun to push for protection for steel, and that could be just the first of many in the industrial Midwest seeking government help against the onslaught of imports.

Mr Clinton has promised to introduce a "fast-track" including strong labour and environmental conditions. This may gain support from House Democrats, but still may not pass, particularly if business rejects it, as it has for the past four years.

NEW CHAIRMAN OF SENATE BANKING COMMITTEE

Appointment of Gramm proves setback for reform

By Richard Wolffe in Washington and John Authers in New York

Prospects for the reform of outdated US banking laws worsened yesterday as the new chairman of the Senate banking committee showed no signs of watering down his strong opposition to community banking provisions.

Senator Phil Gramm – the Texas Republican who will take over control of the powerful committee from the defeated Alfonse D'Amato – is heading for a bitter conflict over social banking issues with Democratic senators and the Clinton administration.

Mr Gramm claims credit for scuppering the last attempt to overhaul the Depression-era and post-war laws which largely separate banks from brokers and insurers. After winning slender backing in the House of Representatives, the latest bill failed in the Senate last month in the face of Mr Gramm's opposition to the community lending provisions.

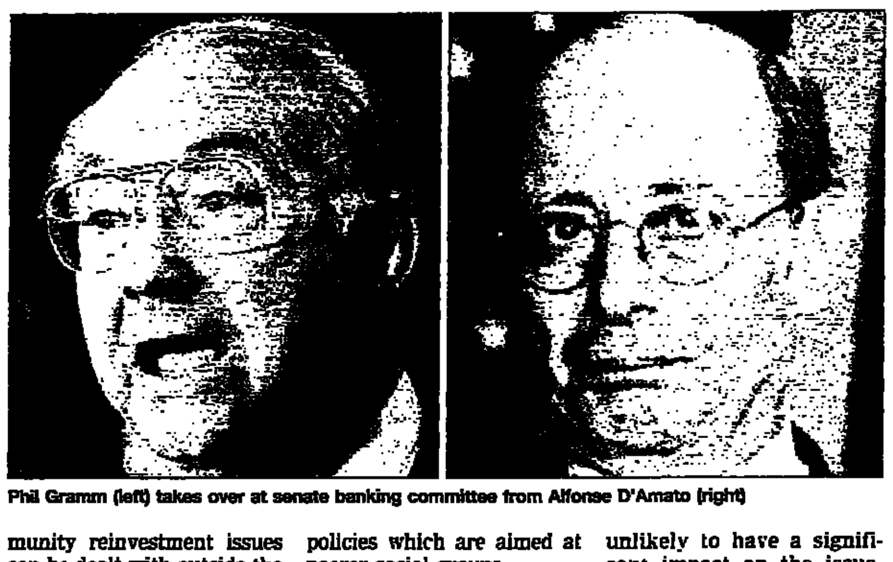
The senator's senior advisers yesterday insisted he was not seeking the abolition of the so-called community reinvestment laws, which require banks to provide loans to poor communities. They said Mr Gramm was merely opposed to the extension of the provisions.

Mr Gramm remains committed to attacking what he argues are the abuses of the community banking laws – particularly fraud and the alleged blackmailing of banks by social protest groups.

"He has not proposed it be reduced or eliminated," Mr Gramm's spokesman said. "He is trying to deal with a particular facet of it that has produced what he views as government complicity in extortion. He wants to eliminate that problem and deal with it."

Senior figures on Wall Street are privately highly concerned by Mr D'Amato's departure. They had a close relationship with him, and trusted him to make the concessions necessary to win reforms.

Some suggested Mr Gramm would also prove an effective legislator. Douglas Kidd, head of government affairs for Bankers Trust, said: "Senator Gramm has been a very successful chairman of the securities subcommittee and there's no reason why he can't be an equally successful chairman of the full committee. Community reinvestment issues can be dealt with outside the scope of financial modernisation."



Phil Gramm (left) takes over at senate banking committee from Alfonse D'Amato (right)

Mr Gramm's views are fundamentally opposed by Democrats on the Senate banking committee, led by Senator Paul Sarbanes, as well as banking officials inside the Clinton administration.

Inside the government, support for community provisions is expected to be higher after the strong Democratic vote in this week's mid-term elections. In particular officials say the large turnout by black voters has raised the political stakes of policies which are aimed at poorer social groups.

The White House and Treasury were already vehemently opposed to the latest financial services bill because of a dispute between bank regulators at the Treasury and the Federal Reserve. Mr Gramm indicated yesterday he would play the role of "honest broker" between the two sides.

Aside from financial services reform, the Senate banking committee has been most closely linked with holocaust issues – in large part because of Mr D'Amato's New York constituency. His departure is unlikely to have a significant impact on the issue. The Swiss banks have now settled with holocaust survivors. European insurers, subject of US lawsuits over holocaust assets, will be more alarmed by election results in California and Florida. In both states, the insurance commissioners won re-election, even though they come from different parties from the governor.

Both commissioners had taken a leading role in attacking European insurers, and now sit on the international commission which will decide how much they should pay.

RULE BY REFERENDUM

Propositions spur gambling and prohibition

By Christopher Parkes, Nikki Tait and Victoria Griffith

This week the US held some 60 state-wide ballots, delivering mixed news to the gambling industry, boosting the cause of prohibition, and slapping down proponents of euthanasia.

As is now traditional, California led the nation in advancing the process of rule by referendum, with a dozen propositions of its own. Spending on these rocketed to heights extraordinary even for the Golden State.

Proposition 5 alone, to allow Indian tribes greater freedom as casino operators, attracted more than $100m to pay for supporting advertising campaigns. More than half came from tribes enriched by existing ventures, who yesterday celebrated an easy win over opponents funded by the Nevada gaming industry.

More heavy spending is expected when the challengers fulfil their threat to take the issue to court.

The biggest single sum involved in the Californian propositions was a $9.2bn bond issue approved by the electorate to repair and expand the state's crumbling stock of school buildings.

But an under-funded consumer-led effort to derail deregulation of the power industry crumbled easily in the face of a $40m-plus campaign paid by the utilities.

This time the Californian ballot list lacked the appeal of recent years, when immigration and minority rights sparked mighty debates.

However, Ward Connerly, the man behind California's own Proposition 209, which has already in effect ended affirmative action in state-run concerns, celebrated a second success in neighbouring Washington state. A law banning preferential treatment based on race, ethnicity or gender, won the support of 58 per cent of voters in Washington. Mr Connerly is planning his next campaign, probably in Texas.

In the Midwest, most attention focused on a Michigan ballot known as "Proposal B", which sought to legalise euthanasia (or "physician-assisted suicide"). Michigan is the home base for Dr Jack Kevorkian, a long time advocate of the practice who has acknowledged helping more than 100 terminally-ill people to end their lives since 1990.

The proposal was comprehensively defeated, by a margin of nearly 3 to 1 margin. The Michigan electorate initially appeared to support the idea, but the campaign suffered from lack of funds.

Proponents of prohibition enjoyed a better night. In Chicago proposals to ban alcohol sales were passed in all precincts where they were on the ballot paper, though these represented only a small part of the city.

FOREIGN POLICY IMPLICATIONS

Allies greet results with sigh of relief

By Stephen Fidler in Washington

The results of the US mid-term elections were received with almost universal relief among US allies around the world. The outcome was seen as giving a new lease of life to a presidency that had been almost given up for dead in the midst of the Lewinsky scandal, and opening the possibility of more decisive conduct of US foreign policy.

European leaders, in particular, were quick to express their satisfaction with a result that showed US voters as unconcerned with their leaders' peccadillos as they hope voters in their own countries to be.

"I think European governments are relieved... It should allow the president more freedom to conduct government," said one European diplomat in Washington. This was viewed positively by leaders, most of whom had long been impressed by President Bill Clinton's personal grasp of complex issues affecting European affairs, he said.

The view was generally shared by foreign policy observers in the US. "You might expect him to have a freer hand and be more engaged in foreign policy," said Paul Kennedy, professor of history and director of international security studies at Yale University. "I think the extremists in the Republican Congress have been calmed, and the moderates, like Chris Dodd [Democratic senator for Connecticut], are back quite firmly."

The strengthening of the centre in Congress provided for a "less disruptive legislature". It opened the space for the US, for example, to settle its arrears with the United Nations, and made it less likely that foreign policy legislation would be hobbled with abortion language, he said.

Prof Kennedy also said Mr Clinton "is going to spend a lot of time dealing with foreign policy issues in the next two years". His enthusiasm for this, Mr Kennedy said, may have been increased by his involvement in the Middle East peace talks at Wye Plantation. Here, the president received widespread plaudits for his commitment and attention to detail, and provided for him a welcome contrast with the "Slick Willie" image that had been pervasive.

Other foreign policy specialists argued the results would not have such a significant impact. "The administration had foreign policy flaws long before Monica Lewinsky turned up outside the Oval Office," said Richard Haass, director of the foreign policy studies programme at Washington's Brookings Institution. "It's true that US foreign policy will not be conducted against the backdrop of impeachment, but he was able to achieve success at the Wye negotiations even with that handicap."

It would also reduce suspicion about the president's motives if he decided to use force, for example, against President Saddam Hussein of Iraq. "If he were to act decisively, you would have less of a Wag the Dog scepticism than you would have had if the Republicans had achieved their objectives," he said, citing the film which depicted a US president manufacturing a foreign policy crisis to distract attention from his domestic political troubles.

The election result also slowed the inevitable transition of all presidential incumbents to lame duck status that always takes place in the last two years of office, he said.

That places an increased focus on Mr Clinton's likely successor. In this respect, the two big winners are widely seen as Al Gore, the vice president, and George W. Bush, the Republican governor of Texas, both viewed as moderates.

"This has strengthened Gore," said Professor Kennedy. "He stayed loyal to Clinton and didn't distance himself like some other Democrats... Clinton is also less of an albatross around his neck." As a result, some of Mr Gore's foreign policy interests – an emphasis on international co-operation and the environment, for example – could begin to emerge.

Meanwhile, Mr Bush had surrounded himself with a "smart team of foreign policy experts" from the Republican party, said Mr Kennedy.

"He won't be accused of *naïveté* and ignorance on foreign affairs."

EXTRADITION WRANGLING APPEAL ARGUMENTS

Pinochet 'should lose immunity'

By John Mason, Law Courts Correspondent

General Augusto Pinochet, the former Chilean dictator, should lose any protection against being prosecuted for alleged crimes against humanity because he broke the constitution of Chile while head of state, the House of Lords in London heard yesterday.

The claim was made during the second day of the appeal by the Spanish government to overturn a High Court ruling that the general could not be extradited to Spain because he enjoyed immunity as a former head of state.

Spain is seeking to extradite Gen Pinochet to face charges including murder, torture and kidnapping after the military coup in which he seized power in 1973.

Alun Jones QC, for the Spanish government, said the Chilean constitution of 1925, which remained in force until 1980, prohibited a wide range of Gen Pinochet's actions, including the torture of civilians.

This breach of the constitution was a further argument for withholding his immunity from prosecution, he said.

Christopher Greenwood QC, also for the Spanish government, said the types of crimes allegedly committed by Gen Pinochet had been accepted as breaches of international law as far back as 1919.

There was no doubt that they amounted to violations of international law at the time they were committed, he said.

Statutes governing international tribunals such as the Yugoslav and Rwandan human rights courts did not prevent individual countries holding similar trials, he said.

Ian Brownlie QC, for human rights groups including Amnesty International, said the lack of an international criminal court had prevented Gen Pinochet being prosecuted in the past. However, the current extradition proceedings offered an opportunity to correct this.

The question was not whether Gen Pinochet enjoyed state immunity in principle but the extent to which this applied. It did not apply to the crimes alleged against him because UK public policy was against torture and the causing of death, he said.

The House of Lords will sit on Monday to resume hearing the case.

On the web today

- Latino power strikes blow for Clinton in California
- Hurricane Mitch stirs political row in Nicaragua
- Colombian Cali drug informer shot dead in jail

http://www.ft.com/americas

VAT PLAN DENIED FOOD, ENERGY PRICES ARE LIKELY TARGETS

Mexico may end some subsidies

By Henry Tricks in Mexico City

Mexico's Finance Ministry will propose an end to generalised subsidies on food and energy in its 1999 budget proposals next week as part of cost-saving efforts to compensate for a drop in oil revenues, officials said. Subsidies for tortillas, the country's corn-based staple, cost more than $1bn last year alone.

José Angel Gurria, finance minister, scotched reports yesterday he was planning to introduce value-added tax (VAT) on food and medicines in a bid to keep public finances on a sound footing. The reports had caused an outcry from lawmakers and business leaders.

A Finance Ministry official said the VAT proposal had been discarded because there was not enough time to assess its impact on Mexico's poor. He said the government, however, was committed to a 1999 budget deficit target of 1.5 per cent of GDP, slightly higher than this year's proposed target of 1.25 per cent.

Mexico's public finances have come under strain this year from falling oil prices, which have pushed state revenues to their lowest level in 18 years. Next year's budget is expected to be equally tight, setting the stage for a bruising confrontation with the opposition-controlled Lower House over spending plans when President Ernesto Zedillo's budget bill is sent to Congress on November 13.

Finance Ministry officials said a key element of the 1999 budget would be the proposal to phase out across-the-board subsidies on tortillas and household electricity. Instead, the government aims to focus the support on the 25m Mexicans who live in extreme poverty.

Mexico provides more than $1bn a year to corn growers and tortilla producers to keep the staple at below-cost price, according to private sector estimates. It also provides cheap domestic electricity, a system officials say encourages flagrant waste.

But lawmakers said the proposals could also increase hardship for Mexicans near the poverty line who may no longer be eligible for subsidies. According to official statistics, some 60 per cent of Mexicans earn less than $6 a day.

Union leaders have also protested against plans to halve in size the scandal-ridden state food distribution agency Conasupo.

US EMPLOYMENT COMPANIES AXE 91,000 JOBS IN OCTOBER

Downsizing back in vogue as profits fall

By Richard Waters in New York

The axe is swinging again in corporate America. With profits from abroad falling and fears of a US economic slowdown ahead, more and more US companies have returned to the "downsizing" that became familiar in the early 1990s.

More than 91,000 job cuts were announced by American companies during October, according to Challenger, Gray & Christmas, a Chicago firm that tracks employment trends. That was the most in any month for nearly three years, and lifted the year's total to more than 520,000 – a number that has been topped only in 1991 and 1993.

Although based only on companies which have in fact announced plans to cut workforces, the numbers point to the general belt-tightening that is under way as companies look for ways to support flagging profits.

In one survey of big US companies last month, two thirds said the worsening outlook for the global economy had led them to intensify cost-cutting.

The latest batch of job cuts is likely to be felt around the world. Among recent announcements, Merrill Lynch led what is expected to be a broad retrenchment among investment banks, saying it would shed 3,400 workers, many of them abroad. Citigroup, which has also felt the pinch in emerging markets, is expected to cut a similar 5 per cent of its workers, or 8,000 jobs.

Levi Strauss also announced big overseas cuts in recent weeks, with news that four plants in Europe would close and 2,500 workers would lose their jobs.

In spite of the intensification of job-cutting, the issue has not surfaced as a source of national political concern, as it did in 1996, when the growing sense of insecurity among American workers became an election-year issue. The continued high level of job creation in the US has calmed many fears, with the latest national jobs numbers, released yesterday, confirming an overall unemployment rate comfortably below 5 per cent.

The Labor Department also reported that the nation's employers added 116,000 positions to their payrolls in October.

But the figure was at least 80,000 less than most economists were predicting. September's payroll increase was revised to 157,000, up from 69,000 earlier.

BRAZIL DESPITE VICTORY FOR GOVERNMENT ON PENSIONS, LAWMAKERS WARN OF DIFFICULTIES IN CONGRESS FOR OTHER MEASURES

Austerity package faces tough passage

By Geoff Dyer in São Paulo

Brazilian congressional leaders warned yesterday that the government's fiscal austerity package still faced a tough passage through Congress in spite of a comfortable victory in Wednesday's vote on pension reform.

The government passed the first test of its political support after the announcement last week of an austerity package, when the lower house rejected two amendments to its pension bill. A third and less important amendment was backed by the government to save time.

The pension bill, which aims to limit the huge deficit on the government's pension system, has been held up in Congress for over three years. The bill faces one more vote in the lower house, which the government is expected to win easily, before passing into law.

However, Arnaldo Madeira, the leader of the government in the lower house, cautioned that victory in the pension vote did not guarantee easy approval of the rest of the government's fiscal package. "Each vote in Congress is separate and has to be negotiated tirelessly," he said yesterday.

The government's three-year fiscal austerity plan aims to save R$28bn (US$23bn) from next year's budget, around half of which would come from higher taxes and R$8.7bn from spending cuts. If the plan does not succeed in restoring confidence in Brazil, economists believe the government would be forced into an uncontrolled devaluation, which could plunge the whole region into recession. "Yesterday's vote was a signal to international markets that measures are being taken to prevent a currency crisis," said Aécio Neves, leader in the lower house of the Social Democrats, one of the largest parties in the government coalition.

The government has highlighted the pension system as one of the main causes of its fiscal problem, forecasting a deficit on pensions this year of R$42.2bn. The problem is particularly acute in the public sector, where some civil servants are able to retire in their 40s on a pension higher than their salary.

However, the pension bill which has been passed will save only an estimated R$3bn in 1999, and the government is already preparing a new reform to the system.

Political analysts said the government could face tougher resistance when Congress votes on its planned tax increases.

In particular, members of two coalition parties, the Democratic Movement and the Progressive party, have raised strong objections.

The government was trying to play down a further dispute yesterday after José Serra, the health minister, publicly criticised plans to cut spending in his department. A note released by the health ministry claimed that spending on health as a proportion of GDP had fallen 12.4 per cent since 1994 and also criticised the lack of resources for education.

WORLD TRADE

Music industry acts over web recording device

By Alice Rawsthorn in London

The Recording Industry Association of America (RIAA), the body representing US record labels, plans to meet Samsung, the South Korean electronics group, to discuss its plans to launch the Yepp, a portable MPeg3 player.

This week, Samsung became the first mass market electronics manufacturer to confirm its intention of producing an MPeg3 player, a controversial new device that can download music from the internet.

Cary Sherman, senior executive vice president and general counsel of the RIAA, said the association planned to start a dialogue with Samsung and any other makers of MPeg3 players in an attempt to ensure that they would not be used to breach copyright by recording pirated music from unauthorised internet sites.

The recent escalation of internet piracy is a serious threat to the music industry's financial stability. The RIAA and other industry bodies fear that the availability of inexpensive MPeg3 recording devices will aggravate the problem by making it easier and quicker for consumers to find pirated music on the internet, and then to store and play it.

The first MPeg3 players, named after the computer files on which music is stored on the internet and other digital systems, went on sale earlier this year. Initially, they were sold in limited quantities over the internet by small, specialist distributors.

Last week, the RIAA sought an injunction from a US federal district court to stop Diamond Multimedia, a Californian company, from selling The Rio, a Sony Walkman-sized MPeg3 player, for $199 at mainstream US retailers.

The RIAA lost its case, and is now appealing. However, the court ruled that Diamond would have to pay a royalty equivalent to 2 per cent of the wholesale price of each Rio sold to the US music industry as compensation for any recording of its copyrights.

Mr Sherman said the RIAA planned to discuss whether Samsung would be liable to pay a similar royalty on sales of the Yepp. However, he said the main purpose of their meeting was to press for the Yepp to include a serial copy management system which would ensure that it could not be used to record unauthorised material.

The RIAA intends to have similar discussions with Saehan, a smaller South Korean company which distributed one of the first MPeg3 players this summer and plans to introduce a smaller, cheaper version later this year.

"It's in all our interests to ensure that there's a legitimate marketplace for these products," said Mr Sherman.

British Midland may buy new jets

By Jonathan Ford

British Midland has started negotiations with Boeing and Airbus about a $500m order for six long-haul aircraft for planned services to 10 US cities from London's Heathrow airport from 2000.

Sir Michael Bishop, chairman, said he was confident an interim open skies deal between the UK and US would be in place by next June, when British Midland intends placing the order.

An agreement is necessary because British Midland can not fly to the US from Heathrow under existing bilateral air treaties between the countries.

Despite last month's breakdown in the latest round of open skies talks, Sir Michael said there was growing pressure from US carriers for a deal. This could lead to a compromise being brokered, involving a partial relaxation of the restrictions at Heathrow, he said.

He also dismissed concerns that British Midland would start transatlantic services at a time of overcapacity and low growth on the route, claiming the airline was in "for the long term".

British Midland has taken options with the manufacturers for deliveries in the spring of 2000 of either Boeing 767-300s or Airbus 330-200s. Sir Michael said the airline's choice would "depend entirely on the deals we are offered by manufacturers".

British Midland plans to enter the transatlantic market in partnership with a US airline. Sir Michael said the group had been approached by several candidates.

British Midland also announced a $200m order with Embraer of Brazil for 10 of its 50-seat EMB-145 jet aircraft, and options over a further five. The aircraft will be powered by Rolls-Royce AE3007 engines. These will replace Saab 340 turboprop aircraft on services between UK regional airports and Europe.

Canada steers to deeper trade ties with US

By Edward Alden in Toronto

Canada has quietly shifted direction in its trade policy, and will focus on expanding its already robust exports to the US rather than diversifying its trading partners.

This shift, which some observers said acknowledges the failure of Canada's high-profile campaigns to expand trading links outside North America, was laid out to the Liberal government cabinet by Sergio Marchi, Canadian trade minister.

The top priority for the government will be to expand trade with the US, particularly by encouraging small, domestically-oriented companies to begin exporting to that market.

Leslie Swartmann, a spokeswoman for Mr Marchi, said Canada would continue to place a high priority on multilateral trade liberalisation through the World Trade Organisation and was continuing to pursue regional trade agreements with Europe and Latin America.

But at the same time Canada is reducing its emphasis on trade expansion in Asia because of the region's economic difficulties and the dim prospects for a rapid turnaround.

The shift comes less than a year after Canada hosted the summit of the Asia-Pacific Economic Co-operation Forum, which the government used aggressively to encourage Canadian companies to increase exports into the region. Instead the Asian crisis has furthered Canada's already large dependence on the US export market.

Canada's efforts to find new trading partners have included several high-level trading missions to Asia led by Prime Minister Jean Chrétien and the provincial premiers. "This government has really tried to diversify and get away from the reliance on the US," said a former government official. "But that hasn't really happened."

Since December, 1997 Canada's exports to the US have grown 7 per cent, while those to the rest of the world have dropped 16 per cent, particularly because of the collapse of the Japanese market. The US now takes 85 per cent of Canadian exports, up from 80 per cent last year and 75 per cent in 1992.

Gordon Ritchie, a former Canadian trade negotiator, said the government's efforts at trade diversification had been "a political, not an economic initiative".

The purpose, he said, had been to provide political cover against Canadian nationalists who would otherwise oppose the increasingly tight economic ties between the US and Canada.

Brussels welcomes US plans for control of internet names

By Neil Buckley in Brussels

The European Commission has welcomed US plans to reform the governance of crucial functions of the internet, saying the plans would not leave the worldwide computer network too firmly under US control.

Martin Bangemann, industry commissioner, wrote to William Daley, US commerce secretary, this week, saying he was "satisfied with the progress made" in forming a non-profit corporation to take control of the internet name and address system.

"We have been informed of widespread support for this proposal both from the member states and from the private sector in Europe," Mr Bangemann wrote.

The internet address and "domain" name system – which ensures internet communications are routed through to the right person or entity – have until now been handled by a US government-funded body, the Internet Assigned Numbers Authority.

The US published revised proposals last month to hand over IANA's powers to a new, non-profit corporation, the Internet Corporation for Assigned Names and Numbers.

Mr Bangemann said the EU was particularly pleased ICANN would have a board of international directors, with no geographic region being permitted to hold more than half the number of board members at any time. Each geographic region would have at least one member.

ICANN announced a nine-member initial board last week, including four US members, three Europeans – from France, Spain and the Netherlands – one Japanese, and one Australian.

Initial board members will serve only until a permanent ICANN structure and board are in place, planned for autumn 1999. The US first published proposals to reform internet governance in January, attracting sharp criticism from the EU that its plans would leave control of the internet firmly in US hands.

Washington published revised plans in July which were broadly welcomed by the European Commission. But the detail of the proposals had until recently been mired in bitter battles among technology and business interests in the US and Europe.

Mr Bangemann warned that Brussels expected ICANN's articles of association – still being finalised – to commit it to respecting the global public interest and all relevant international law and conventions.

He added that Brussels was reviewing a related proposal, to phase out the exclusive right of a US company, Network Solutions Incorporated, to register certain internet names.

Bangemann, pleased by international board

MASSACHUSETTS STATUTE RULING THAT HUMAN RIGHTS LAW INFRINGES POWERS OF FEDERAL GOVERNMENT

Court strikes out Burma sanctions law

By Shilpa Mohan in Washington

Supporters of a Massachusetts law prohibiting state agencies from buying goods from Burma, yesterday expressed anger and disappointment at a federal court decision to strike down the statute as unconstitutional. The district court on Wednesday said the law "impermissibly infringes" on the federal government's power over foreign affairs.

"State interests, no matter how noble, do not trump the federal government's exclusive foreign affairs power," the court ruling said.

Legal scholars and elected state officials have urged the Massachusetts Attorney General to appeal. They claim the decision could have sweeping consequences for local governments, US taxpayers, and the Burmese people. Proponents of the law argued that the constitution permitted certain state actions that indirectly affected foreign affairs. Although the constitution was vague on the question of who ran foreign policy, advocates said the court should leave a final decision to the legislative branch.

"The court decision would deny cities and states the power to use moral standards for choosing their business partners if foreign commerce is affected. It would effect laws for domestic, minority, and environmental purchasing in 45 states," said Robert Stumberg, Professor at Georgetown's University's Law Center. Twenty-two cities and counties around the world exercise selective purchasing laws against Burma.

"Boycotts based on human rights have been a cornerstone of our democracy since the Boston Tea Party. Without it, we wouldn't have the constitution in the first place," said Simon Billerness, of Frankling Research and Development Corporation in Boston.

Aung San Suu Kyi, leader of the pro-democracy movement in Burma, has called sanctions such as the Massachussetts Burma Law a "critical way to pressure the military junta without hurting the Burmese people."

"The constitutional problems created by the Massachusetts Burma Law are serious, and the proliferation of similar laws in states cities through the country creates a problem not only for business, but for the ability of the US to conduct coherent foreign policy," said Frank Kittedge, president of the National Foreign Trade Council, which filed the suit. "We share concerns over reported human rights n Burma, however, our system of government was not designed to allow the fifty states and hundreds of municipalities to conduct their own individual foreign policy," he said.

SOUTH AFRICA TOBACCO COMPANIES TO CHALLENGE BAN ON ADVERTISING AND SMOKING IN PUBLIC

Anti-smoking law prompts howls of protest

By Victor Mallet in Johannesburg

Cigarette makers yesterday expressed outrage at the imminent enactment in South Africa of one of the world's most stringent anti-smoking laws, saying they might challenge the legislation as unconstitutional.

The Tobacco Products Control Amendment Bill, passed by the National Assembly in Cape Town on Wednesday night, bans all tobacco advertising and forbids smoking in public places, including workplaces.

The bill will become law after amendments have been ratified by the National Council of Provinces next week and President Nelson Mandela has signed it.

Rothmans International and British American Tobacco, which between them have 90 per cent of the R10bn ($1.8bn) a year South African market, both called the bill "draconian". Steven Jurgens, managing director of BAT (South Africa), described the rapid way in which it was pushed through parliament as "kangaroo justice, jungle justice".

Mr Jurgens said: "We reserve our right to take action. One option – a very strong option – will be to take her to court."

The tobacco companies, backed by trade unions, free speech advocates, tourism bodies and media groups that benefit from tobacco advertising and sponsorship, have numerous objections to the bill. They say it will damage the economy and will be hard to enforce, and they complain that they were not consulted by Nkosazana Zuma, the anti-smoking health minister responsible for the law.

Above all, they say that the ban on advertising is an unconstitutional infringement on the right to free speech – and they point to a case in Canada that was won by the tobacco lobby on the same basis. The legislation will also give Dr Zuma exceptionally wide discretionary powers as minister: she can, for example, declare certain public places "permissible smoking areas".

"The industry and other stakeholders are feeling very insecure and confused," said Edward Shalala, chief executive of the Tobacco Institute of Southern Africa, which represents businesses. "The industry is bitterly disappointed. Parliament has not done its work, because they have not taken into account the constitutionality of the bill and the economic impact it will have."

The uncompromising Dr Zuma, however, enjoys widespread public support and the backing of her party, the ruling African National Congress.

Yussuf Saloojee, an anti-smoking campaigner and one of Dr Zuma's advisers, rejected suggestions that the bill was unconstitutional.

"The constitution says we have the right to an environment that is not harmful to our health," he said, "and restrictions on smoking in public places will uphold non-smokers' constitutional rights."

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Army on alert in restless Harare

Zimbabwe's government put the army on alert yesterday and warned the country could descend into anarchy if violent protests against a weekend fuel-price rise were not contained, Reuters reports from Harare.

Riot police and heavily armed soldiers patrolled restless townships in the capital Harare and in neighbouring Chitungwiza town, where angry mobs on Wednesday stoned and torched cars and buses to protest at a 67 per cent fuel price increase.

The Zimbabwe dollar touched new lows against the US dollar yesterday but recovered slightly to Z$38.0 Z$38.50 to the dollar after the central bank intervened, dealers said.

"Generally it's the negative sentiment that is in the market due to this unrest. People started to panic," said one dealer.

Harare and nearby towns were generally peaceful, with traffic running normally, many businesses open and people back at work, witnesses said.

Moven Mahachi, defence minister, appealed for calm, but said that the army was ready to deal with any trouble.

The government deployed riot police and soldiers to curb Wednesday's protests, which also focused on President Robert Mugabe's controversial military support for President Laurent Kabila of the Democratic Republic of Congo.

Police reported on Wednesday night that more than 50 people had been arrested on suspicion of looting and government sources said secret service agents had been deployed to sniff out protest ringleaders.

Wye pact approval hits new problem

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israeli prime minister, yesterday convened the cabinet to approve last month's interim peace accord signed with the Palestinians in Washington.

But no sooner had the cabinet met than the implementation of the Wye agreement hit another hurdle, this time over clauses in the Palestine Liberation Organisation charter which called for the destruction of Israel but which were annulled in April 1996.

In addition, Israel brushed aside US criticism following a decision by the housing ministry to issue tenders to build 130 more homes in the West Bank Jewish settlement of Avnei Hefetz.

The cabinet debate had been postponed three times as Mr Netanyahu insisted the Palestinian Authority put in writing verbal agreements made at Wye to arrest 30 suspect terrorists within the next three months. Failing that, implementation would be delayed.

Under the terms of the accord, Israel is obliged to carry out a phased hand over of 13 per cent of West Bank land to the Palestinians in exchange for security guarantees. Madeleine Albright, US secretary of state, quickly intervened, assuring Mr Netanyahu that Yassir Arafat, the Palestinian leader, would take steps to arrest Palestinians accused of killing Israelis.

But as yesterday's marathon cabinet session began, Mr Netanyahu issued another threat. He said Israel would halt the handover of land if the 700-member Palestine National Council failed to revoke clauses in the PLO charter calling for Israel's destruction.

SCIENCE BREAKTHROUGH CONTROVERSIAL RESEARCH SUCCEEDS IN CULTURING HUMAN EMBRYONIC STEM CELLS

Medicine enters realm of science fiction

By Clive Cookson, Science Editor

Imagine being able to reach into the laboratory freezer, take out a cell culture, treat it with growth factors and produce any tissue in the human body – from brain cells to treat Alzheimer's disease, to new hearts for transplantation.

That vision of medicine in a few years time does not come a science fiction novel but from the leading US research journal *Science*. It reports today that a team at the University of Wisconsin has successfully cultured "human embryonic stem cells", the parent cells of all the more specialised tissues in our bodies.

A second research group, at Johns Hopkins University in Baltimore, will report a similar success, using a different technique, in the *Proceedings of the National Academy of Sciences* next week.

"The potential of these unique, versatile cells for human biology and medicine is enormous," says John Gearhart, leader of the Johns Hopkins team. "Not only should scientists be able to generate specific nerve, muscle, skin or other cells for transplantation but we should be able to alter these cells, as has been done in mouse studies, to reduce the likelihood of rejection. We could make universal donors."

The Wisconsin scientists have narrowly won a 20-year international race to produce sustainable cultures of human embryonic stem cells. Although researchers have made such cultures for several types of animal, they have failed with other species, "so it was not a foregone conclusion that [stem cells] could derived from human embryos," says Professor Gearhart.

Despite the promised benefits, the research is controversial. Some religious groups object to the fact that cells for the projects came originally from spare human embryos and aborted foetuses. And there are fears that embryonic stem cells could be misused for purposes that are ethically unacceptable: for cloning human beings, or for carrying out "germ-line" gene therapy in which new genes are passed on to future generations.

The researchers say their work has been endorsed by local ethical committees and makes use of material that would otherwise be thrown away. Stem cells will proliferate for ever under suitable laboratory conditions, so when enough cultures have been established no more embryos or foetuses will be needed. But the cells are not equivalent to an intact embryo; if they were transferred to a woman's uterus, they would not implant or develop into a foetus

The Wisconsin scientists started from week-old embryos, donated by parents who had undergone test-tube baby treatment at the university's fertility clinic. They removed the embryo's outer layer and carefully cultured the inner cells in conditions that enabled them to grow without "differentiating" – making an irrevocable commitment to grow into a particular tissue type (see diagram).

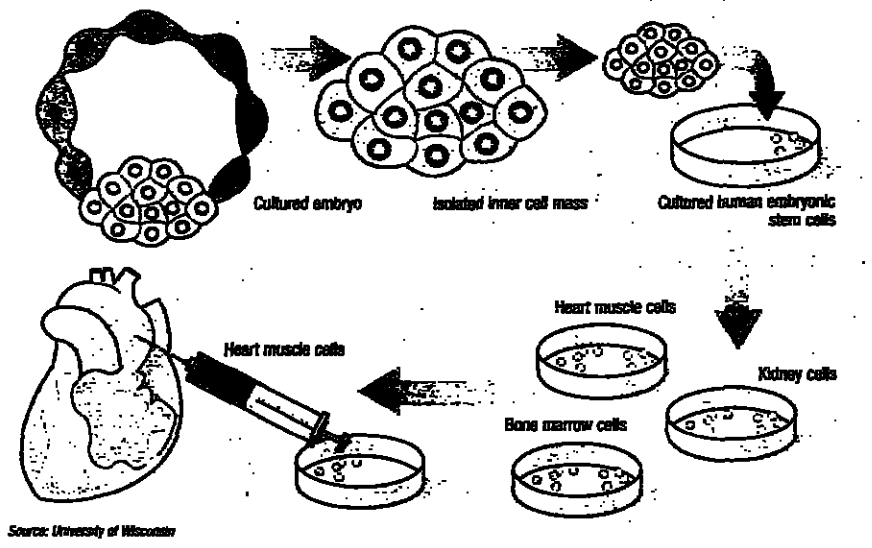
The Johns Hopkins researchers used cells from older aborted foetuses, which they brought back to an embryonic state.

After ethical concerns led Congress in 1995 to ban US government funding of research involving human embryos, the private sector stepped in.

Geron, a Californian biotechnology company, is paying for human stem cell research not only at Wisconsin and Johns Hopkins but also at the University of California. It will hold the key patents – which may provoke objections that one company should not control something so important for improving human healthcare as embryonic stem cells.

The technology's first impact is likely to be in pharmaceutical research. Once scientists have found a reliable way to direct the stem cells' differentiation, they will be able to screen drug candidates for safety and efficacy on normal human cells of any tissue type.

Culturing human embryonic stem cells



Source: University of Wisconsin

The Business section today also appears on pages 11,12 and 14 in the UK edition.

TUSSLE WITH IRAQ UK AND US ON DIPLOMATIC FORAYS TO WIN SUPPORT FOR STRATEGY

Drive to muster Gulf backing

By David Buchan, Diplomatic Editor, in London

Robin Cook, the UK foreign secretary, said yesterday he and other British ministers would fan out across the Gulf region in the next fortnight to explain the need to give a stiff response to President Saddam Hussein and to stop him smuggling oil out of Iraq in order to fund his war machine.

As William Cohen, US defence secretary, toured the Gulf, President Bill Clinton expressed his belief that "we will have the support [from Gulf states] we need" and warned that "all options are on the table". Mr Clinton is also sending Sandy Berger, his security adviser, to Europe this week to consult US allies on the latest Iraqi crisis.

The concerted Anglo-American strategy is to threaten Mr Saddam with bombing for his refusal to allow weapons inspection by the United Nations, but also to increase diplomatic and economic pressure on the Iraqi leader in the fervent hope that he will back down.

This combination of tactics produced last February's agreement negotiated by Kofi Annan, the UN secretary-general, but now broken by Mr Saddam.

Mr Cook said it would be "right and proper for Mr Annan to lead the international reaction" to the Iraqi leader's latest obstructionism, but said he "would not advise him to go to Baghdad" again.

Mr Cook complained that, sidestepping the UN regime that allows it to sell oil and buy food and medicine in return, Iraq was smuggling out "quite significant" amounts of oil via "illicit sales through Jordan" and other neighbours.

Receipts from this smuggling, he claimed, allowed Mr Saddam "to pay his Republican Guard more than the regular army, to build an additional presidential palace and to continue funding his weapons programme".

Accusing the Baghdad regime of abusing its UN-approved right to import vital medicine, he claimed that among items Iraq had sought to import recently were "suction cups for cosmetic treatment and breast silicone implants".

■ Michael Littlejohns adds from New York: The UN Security Council was expected last night to condemn Iraq's cessation of co-operation with UN weapons inspectors as a "flagrant violation" of its obligations and to demand that the decision be rescinded "immediately and unconditionally".

The resolution, drafted by Britain, reaffirms support for the commission led by Richard Butler and for the Atomic Energy Agency in their work to ensure destruction or dismantling of Iraqi heavy weapons.

Saddam gambles that divisions in the UN Security Council will erode sanctions

Roula Khalaf looks at why Saddam has taken the risk of suspending weapons inspections

Saddam Hussein may be enjoying watching another episode of US shuttle diplomacy in the Gulf in an effort to rally support for a tough response to his suspension of all United Nations weapons inspections.

The Iraqi president is convinced William Cohen, US defence secretary, is being told there is little appetite in the Arab world for a military strike on Iraq. He assumes that, should confrontation with the UN lead to US military strikes, they would be limited – and past experience suggests such attacks do little to weaken him.

But his decision to cripple the UN disarmament commission is a big gamble that could backfire.

Mr Saddam calculates that, by provoking crisis after crisis, he can aggravate splits within the UN Security Council that may lead to a gradual erosion of sanctions.

Last February, an agreement brokered by Kofi Annan, UN secretary-general, averted a US and UK-led military attack on Iraq. But there has always been the expectation that another crisis would soon be in the making.

The agreement gave assurances to Baghdad that there would be "light at the end of the tunnel" of sanctions, imposed on Iraq after its invasion of Kuwait eight years ago, and sent a special UN envoy to Baghdad to smooth relations between Iraq and Unscom, the special commission charged with Iraqi disarmament.

But co-operation was stopped in August when it became clear that hopes of an end to inspections this autumn would never materialise. As usual, Unscom accused Iraq of failing to come clean on its weapons and Iraq accused the commission of deliberately working to maintain sanctions.

Since then, Iraq has perceived that sentiment was moving in its favour, and against Unscom. The commission's credibility has come into question with revelations by Scott Ritter, a former inspector, that he relied heavily on information from Israel in his efforts to uncover Iraq's concealment activity. He also said the US had put pressure on Unscom not to undertake surprise inspections which might aggravate the Iraqis.

At the time, Iraqi officials were in talks with the office of the UN secretary-general about a plan for Baghdad to reverse its August decision in return for a comprehensive review of sanctions, to which all members of the Security Council agreed.

Iraq considered the review as a way of closing some disarmament files and leading, at least, to a partial lifting of sanctions, and signalled that it would soon back down.

Two events, however, led to a hardening of Mr Saddam's position and his decision last Saturday to extend the ban to inspections of sites already checked and now being monitored.

First was last month's VX nerve gas report by Unscom. It concluded that fragments of missiles excavated in June in Iraq showed traces of VX nerve gas. This was confirmed by tests conducted at a US laboratory. Swiss studies, however, did not find anything and French tests showed in one out of 40 samples traces of an agent that could have been VX, another chemical agent or a product for civilian use.

Security Council members sympathetic to Iraq regarded the tests as inconclusive. Iraq, which has always denied having loaded nerve gas on to weapons, blamed Richard Butler, chief UN arms inspector, for relying too much on the US results.

Second was the Security Council letter sent to Mr Annan, last Friday on the form of the sanctions review.

The US had refused to include in the letter specific reference to paragraph 22 of UN resolution 687, which stipulates the oil embargo on Iraq would be lifted if it was declared free of weapons of mass destruction.

Iraqi officials argued the omission was confirmation that the US would not abide by the letter of UN resolutions and would insist Baghdad meet other requirements such as respecting human rights and accounting for the fate of Kuwaiti prisoners.

"Saddam's vision has some coherence. He believes the UN Security Council will not play the game according to the rules because of the US veto," says a western diplomat. "But if Iraq went along and co-operated, slowly, sooner or later, the UN would have to lift the sanctions."

Iraq's friends and foes have made clear in recent days that Mr Saddam's actions have delayed the prospect of the removal of sanctions and could derail an attempt to hold a comprehensive review.

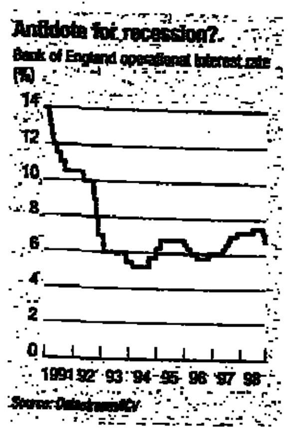
Shutting down all capacity to inspect or even monitor already inspected facilities had undermined the support Iraq has gathered in the Arab world and beyond for and end to sanctions, making it difficult for anyone to argue the Iraqi case or to break the embargo.

It also undermines backing for an end of sanctions in the Security Council. Russia has said it opposes military action but the Russians, French and Chinese – all Iraq supporters – have condemned Iraq's move. They seem at a loss to give a reasonable justification for Mr Saddam's behaviour.

MONETARY POLICY COMMITTEE DECISION TO DROP TO 6.75% 'REFLECTS NEWS ABOUT THE INTERNATIONAL ENVIRONMENT'

Central bank surprises City with cut

By Robert Chote, Economics Editor



The Bank of England yesterday delighted businesses and surprised the City of London with a half-point cut in interest rates, suggesting that the Bank may be more worried about the threat of recession next year than the Treasury. This is the first occasion since the Bank was granted independence in May last year that it has moved rates by more than a quarter-point.

The monetary policy committee of the Bank, the UK central bank, announced it had cut the growth forecast for next year it published in August and revised down its expected profile for inflation over the next two years. This reflects "news about the international environment and the prospects for domestic activity".

The committee said the cut to 6.75 per cent was appropriate to maintain a path for inflation consistent with the government's 2.5 per cent target. It will detail the new forecasts on which yesterday's decision was based in its quarterly Inflation Report next Wednesday.

City economists had been unanimous in expecting another rate cut to follow October's quarter-point reduction, but few expected half a point. The size of the cut was a victory for the "activists" on the committee.

"At the very least, the speed with which the committee is cutting rates suggest that they believe the risks for growth are clearly to the downside of the chancellor's 1-1.5 per cent forecast for 1999," said Michael Saunders, UK economist with Salomon Smith Barney.

Gordon Brown, the chancellor of the exchequer, welcomed the cut, adding that he and the Bank agreed there would be "moderate" growth next year. Treasury ministers have been criticised in recent weeks for putting covert pressure on the Bank to ease policy.

Business also welcomed the reduction, but warned that the Bank should be ready to cut again if necessary. The pound fell 0.8 pfennigs to DM2.756, but profit-taking and poor US jobs growth took share prices lower. The FTSE-100 dropped 143.1 to 5,479.8.

"We believe it is the correct action: half a percent is just the right amount," said Adair Turner, director general of the Confederation of British Industry, the main employers' organisation. He said it would make recession less likely by underpinning sterling's fall and reviving consumer confidence.

With several mortgage lenders announcing cuts in the cost of home loans, the British Retail Consortium welcomed the likely boost to consumer spending over Christmas.

The Engineering Employers' Federation said the move would encourage investment and thus help raise UK productivity.

The domestic slowdown cited by the Bank was evident yesterday in official figures showing a small fall in factory output in the third quarter. This unexpectedly weak out-turn may herald a downward revision to the 0.5 per cent economic growth estimate in the same period.

The outlook for rates from now on will be clearer when the Bank outlines its thinking in the inflation report. Short sterling futures contracts imply at least another half-point cut by March.

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Investment agency reports success with US companies

South-East Regional Investment, the investment agency for south-east England, has helped to attract 20 companies from outside the UK in its first year, Brian Groom writes. The agency is set to meet or exceed its targets, underlining the fact that investment into the UK is running at record levels in spite of fears about the global economy.

The largest investments were Medisense, a subsidiary of Abbot Laboratories, the US healthcare group, which expects to create 700 jobs at a new factory near Oxford; Antolin-Irausa, a Spanish automotive components manufacturer, creating 230 jobs in Ramsgate, Kent; CFS International, a US-owned debt collector, creating 200 jobs at Maidstone, Kent; and Amazon, the US internet bookseller, creating 150 jobs in Slough, near Heathrow airport.

Investment from the US, the agency's main target market, remains strong, and the agency has appointed a full-time representative in Boston. It has also linked with the investment agencies for London and eastern England to market their regions jointly in Atlanta.

NORTHERN IRELAND FORMER GOVERNOR OF HONG KONG HEARS LITANY OF GRIEVANCES

Policing probe chairman given harsh baptism

By John Murray Brown in Belfast

Chris Patten was greeted with barely disguised hostility when he held the first public meeting, on Wednesday night, of his independent commission on policing in Northern Ireland. It was held in a school off the republican Falls Road in the principal city of Belfast. Mr Patten, once a minister in Margaret Thatcher's Conservative government, later became the last British colonial governor of Hong Kong.

The session began well, with Mr Patten, the commission chairman, nodding approvingly as the first speaker remarked that agreement on policing was seen by republicans as "a litmus test" of the April peace agreement.

But by the end of the two-hour session, Mr Patten looked distinctly uncomfortable. Asked if he had really understood the hurt people felt about the Royal Ulster Constabulary [the Northern Ireland police force], he replied awkwardly: "Well we couldn't have missed it, could we."

When he was appointed to report on the future structure and practices of the RUC, Mr Patten was hailed by many in Northern Ireland as an even-handed referee. But in the Irish Republican Army's heartland, Mr Patten is still seen as a former minister of the British state – albeit a Roman Catholic one.

What he will have learnt from the encounter on Wednesday is hard to guess. Certainly a less astute listener than Mr Patten might have been left with the impression that the republican community feel justice can be achieved only by disbanding the RUC – or as one man quipped: "Deportation, never mind disbandment".

Abolition is certainly the opening negotiating position of Sinn Féin, the IRA's political wing, but privately party officials concede that compromise is inevitable. As Tom Hartley, a Sinn Féin assemblyman, put it afterwards: "Look, the anger you see here is all part of the healing process. This is the first time the community has been able to express their feelings about the police in this way."

Mr Patten and his fellow commissioners were clearly frustrated at the lack of what he called "constructive" ideas about RUC structure and practices.

Instead, he was offered a litany of grievance. One man brandished a doctor's report from 22 years ago documenting his alleged torture. Des Wilson, a defrocked Roman Catholic priest, said Mr Patten's government, rather than "rotten apples" in the RUC, was "wholly and appallingly responsible" for policing failures of the past.

● The Roman Catholic share of the workforce in Northern Ireland is growing, the region's Fair Employment Commission reported yesterday. The Catholic share last year rose to 38.8 per cent, an increase of 3.9 percentage points since 1990.


Chris Patten: focus of anger in republican district Crispin Rodwell

UK 'supplies 16% of world's creative goods'

By Kevin Brown and Alice Rawsthorn

Creative industries in Britain generate £8bn ($13.5bn) worth of exports a year – equal to 16 per cent of the global market in creative goods and services, a government report will state today. It will say that fashion, film, pop music, advertising and other creative sectors, traditionally dismissed as frivolous, are creating 50,000 jobs a year to offset the long-term decline of British manufacturing.

Chris Smith, the chief culture minister, will unveil a government survey claiming that Britain's creative industries generated £60bn of revenues last year, and are growing at 5 per cent a year – twice the rate of the economy as a whole.

The Creative Industries Mapping Document – drawn up by a task force of entrepreneurs including Richard Branson and fashion designer, Paul Smith, as well as ministers – is the first attempt to quantify the economic impact of the creative sector.

It says that music, design, software, publishing, fashion, architecture, film and television, and arts and antiques marketing employ about 1m people. The report does not quantify the potential for growth, but internal forecasts suggest that exports will grow by at least 50 per cent in real terms over the next 10 years.

Growth in the creative industries has been explosive in recent years, according to the report, with new sectors – notably feature film effects and computer games – constantly appearing to counter cyclical downturns in more mature areas.

Mr Smith says the government is determined to avoid another chapter in the story of British creative talent since the first industrial revolution: "invented here, but commercially exploited somewhere else".

The report identifies a number of potential barriers to further growth, including the weakness of intellectual property rights, a need for more skills training and potential over-regulation. During the preparation of the study, various government departments started work on projects to tackle these problems.

● Gavyn Davies, chief international economist at Goldman Sachs, the US investment bank, and an adviser to Gordon Brown, the chancellor of the exchequer, is expected to head a panel that will review funding of the BBC next year. Mr Davies is the co-author of a book calling for generous annual rises in licence fees.

NEWS DIGEST

CHANNEL ISLAND COURT HEARING

Trust director faces fraud charges involving £5m

Raymond Eric Norman Bellows, a former Jersey trust company director, yesterday faced 27 charges of fraudulent conversion and one of obtaining property by false pretences. The fraud charges involved alleged losses of £5.1m. Mr Bellows reserved his plea and was given bail at a court in Jersey, the largest of the Channel Islands between England and France. He was ordered to report to the police each week.

He was the founder and former director of two Jersey-registered companies, Lavey Hancox Management and European Trustees and Nominees (CI), that were declared en desastre (bankrupt) last year.

It is understood that Mr Bellows is alleged to have used clients' companies' funds to make personal investments in property. **Philip Jeune, Jersey**

OFFSHORE OIL AND GAS

Trade unions sign deal

Trade unions and employers in the UK's offshore oil and gas industries signed a partnership agreement yesterday which includes a commitment to "non-disruption" by employees. The document also involves acceptance by employees of new working practices and adoption of new technology and innovation. Both sides commit themselves to co-operation on dealing with safety issues.

"This agreement represents a major step forward in securing the future wellbeing of our industry and its workforce", said Syd Fudge, chairman of the Offshore Contractors Association, which covers 64 companies together employing more than 30,000 workers. Ken Jackson, AEEU engineering union general secretary which represents 4,500 offshore workers, said such a partnership was "ground-breaking". **Robert Taylor, London**

INSURANCE

Genetic tests move rejected

The government has decided against immediate legislation on the controversial use of genetic tests by insurers and will instead try to develop voluntary safeguards with the industry. Ministers said yesterday they had rejected a recommendation by the government's Human Genetics Advisory Commission that there should be a two-year moratorium on asking clients who seek insurance products for their genetic tests results.

Instead, the government said it would work with insurers and the commission to secure early creation of an independent evaluation system as part of the existing Advisory Committee on Genetic Testing, which monitors new developments for the government. **Andrew Bolger, London**

WORKPLACE SEX EQUALITY

Call for tough enforcement

The government should legislate to force companies to strengthen workplace sex equality with tough enforcement against non-compliance the Equal Opportunities Commission recommended yesterday. Business organisations expressed their strong opposition. Kamlesh Bahl, the EOC's chairman, said its proposals would make sex equality a basic human right under UK law. The report calls on the government to introduce a law based on the "principle of equal treatment which would guarantee freedom from discrimination on grounds of sex, pregnancy, marital and family status and gender reassignment" to apply to "employment, training, education and ... all dealings between the citizen and the state and public authorities". **Robert Taylor, London**

EDS and IBM to update welfare computers

By Nicholas Timmins, Public Policy Editor

A consortium led by Electronic Data Systems and International Business Machines was chosen yesterday to update the UK social security department's computing systems, with the aim of producing a client account for every citizen.

The Affinity consortium, which also includes Cable and Wireless and PricewaterhouseCoopers, has been chosen to help design the strategic components for Accord – the name of the project aimed at modernising and redesigning the department's benefit delivery systems while reducing its £2.7bn ($4.5bn) administration costs.

It will involve ensuring compatibility among the department's 27 systems, which include more than 200 mainframe computers and 70,000 PCs, improving the inaccuracy of benefit administration while reducing fraud.

The individual client accounts should mean that pensioners, parents claiming child benefit, the unemployed, the disabled and those on housing benefit and income support should not need to be asked to provide repeat information about themselves.

The 10-year programme is likely to involve replacement of much, though not all, of the department's computing.

The Affinity consortium is likely to win the first tranche of service work which, according to the department's Information Technology Services Agency, is intended to be delivered in 2001. Two consortia not chosen as preferred providers, Arcway and 1Accord, are being retained to contribute a range of the services needed to complete the multi-billion-dollar programme.

Stephen Timms, the junior social security minister, said yesterday's decisions were "essential prerequisites to the detailed negotiations which will allow the commercial arrangements to be finalised with service providers." Specific contracts would be awarded as needs arose over the next 10 years.

Arcway is led by British Telecommunications, with Bull Information and SEMA, while 1Accord is led by ICL with Andersen Consulting, Experian, Microsoft, Rand Information Systems and Ferret Information Systems.

'Sound drums and trumpets': poets seek to charm royal patron

The successor to Ted Hughes, the poet laureate who died last week, will face an unusually tough task, says **Annalena McAfee**

With what seems like indecent haste, the search for Britain's next poet laureate is on. Within days of the death last week of Ted Hughes, the colossus of contemporary English poetry and official versifier to Queen Elizabeth, bets were already being taken on his likely successor.

Frontrunners were Andrew Motion, professor of creative writing and biographer of Larkin and Keats, and James Fenton, Oxford professor of poetry and a former war correspondent.

But Hughes will be a hard act to follow, both in terms of the Promethean quality of his verse and in his willingness to embrace a role which tied his art to an ancient, some would say anachronistic, form of patronage.

For Hughes, allegiance to the monarchy was a reflection of his mystical belief in tradition and hierarchy.

"He liked the idea of being the poetic shaman of the tribe," said his friend and fellow poet Craig Raine.

Most established poets today, however, are of a more republican persuasion and would be unlikely to turn out a decent sonnet celebrating a royal wedding or mourning a royal death. Even Hughes seemed to flounder – his official poems collected in the volume *Rain-charm for the Duchy* were generally acknowledged to be among his least successful.

The problem is that public poetry, particularly officially sanctioned public poetry, is usually bad poetry. The most distilled of literary forms, verse – whether structured or free form – ruthlessly lays bare any latent pomposity or humbug.

The most enthusiastic public poet in the last 150 years was the Scot William McGonagall, who could always be relied on to exult over some civic event or royal visit with leaden rhyme and limping rhythm. McGonagall styled himself the "poet laureate of Tay Bridge" and marked Queen Victoria's jubilee in 1887 with an excruciating ode which began *"Sound drums and trumpets, far and near!/ And let all Queen Victoria's subjects loudly cheer!/ And show by their actions that they revere,/ Because she's served them faithfully fifty long year!"*

McGonagall thought himself a certainty for the post of Victoria's pet poet – although the laureateship was already occupied by Alfred Lord Tennyson.

Perhaps the liveliest court poet was John Wilmot, Earl of Rochester. His wit made him a favourite, if not official poet laureate, with the retinue of King Charles II. In 1678, Rochester was asked to write a poem for the king but instead mistakenly sent him a lampoon speculating in the most frank terms about the King's sexual inadequacies. The poet was lucky to escape with his head and was forced to flee into exile.


Front runners: James Fenton (left) and Andrew Motion

Today's poets are more likely to share Rochester's views of the monarchy than McGonagall's, and the money attached to the life-long post of poet laureate is unlikely to tempt them to compromise their opinions. Proposals for radically overhauling the appointment are currently being considered. The US model – in which a poet-laureate consultant to the Library of Congress is appointed for two years, paid $35,000 annually and charged with increasing public awareness of poetry – may offer a solution.

In the UK, the Arts Council, the Poetry Society and the Royal Society of Literature, the bodies which usually advise the government and the monarch on suitable candidates for the post, are discussing proposals to sever the UK laureateship from its regal links and attach it instead to the British Library, bringing a more generous salary for a fixed term. Craig Raine, however, rejects this modernising proposal, although he himself has no desire to enter the race for the laureateship.

He argues: "The poet laureate of the British Library has a thoroughly drab pension-scheme ring to it. The prestige of being a poet laureate may be tinselly and out-of-date, like the buckles on a Cavalier's shoes. But better that than a pair of Hush Puppies passed on every few years."

Pay unchanged for 300 years

There have been 18 poets laureate appointed by royal command since John Dryden in 1670. The laureate's main task is to write to order verses about state occasions. The salary has not changed from the £100 a year set in 1692. *Apart from Dryden, Tennyson and Wordsworth, few pre-20th century laureates are remembered today.*

RICHARD DONKIN

Tending the grapevine

Managers take heed: office networks can make or break your plans

How do you find things out in your company? Where do you get your news? Does it come in the form of a memo from on high or do you pick up gossip in the canteen? And what do you do with the news when you have it?

The answer to this last question can be vital to the running of a business, yet so much advice on corporate communications – and there is almost as much as there is on leadership – is of the "how to" kind.

Companies instigate a plethora of systems such as intranets, team briefings, memos and e-mails to get their message across. It is usually a top-down system because managements are still hierarchical and many do not yet understand how or even why they are being cut out of the information loops.

Working in a news environment, the sense of control that governs the dissemination of news seems in direct contrast to the Brownian motion of internal information. Internal news cannons around like a pinball with as much sense of direction.

The top-down stuff is quickly digested and that which we need is filed away. This is what is supposed to happen. But something else happens too. Some of the information is subject to testing and analysis. Groups of people will gossip about the meaning of certain moves or strategies. Some will talk on the telephone or exchange internal e-mails, looking for interpretations.

The information is passed and translated among various networks – some extending beyond the company – with the result that many management moves have been analysed and explained, often anticipated, way beyond anything that has been placed in a memo.

Karen Stephenson, professor of management at UCLA in the US and at the Theseus Institute in France, has studied such networks, which she believes can become powerful groups in either blocking or instigating change.

I met her last week at a cocktail party hosted by the Institute of Personnel and Development, but it was not until afterwards, when reading one of her papers pulled from her web page (*netform-stephenson.com*) that I discovered she had made a practice of analysing the behaviour of people at cocktail parties. Whether we know it or not, at such gatherings we are establishing what she calls "invisible lines of trust". It is this that makes us feel comfortable about sharing information.

Such encounters seem quite different from those inspired by blatant networking – the practice of meeting and cultivating people because we think they might be of use to us. That kind of networking seems less about trust and more about exploitation but it may be old-fashioned to think this way. A natural network, however, does seem to emerge when people find that they have something in common or that they like each other.

Prof Stephenson uses a kite image to describe the three types of people found in all networks. Firstly there is the "hub" at the centre of the kite – the individual with many connections to different people. Then there are "gatekeepers" at the foot of the kite, without whom information will not flow to certain areas along the tail. Others, she calls "pulse-takers", are placed between the hub and the gatekeeper. These are the sort of people who have their ear to the ground. They tend to be less visible and their role is not easily understood or appreciated.

The pulse-takers seem the most interesting employees because they will often analyse and interpret any information. Their verdict – respected by those who are plugged in to their opinions – can make or break a management policy. Prof Stephenson says Machiavelli was a typical pulse-taker.

Identifying such people and understanding their role can be vital if a management is attempting to introduce some innovation or change in working practices. It might be wise to consult the pulse-takers beforehand for their opinions.

Prof Stephenson uses what she calls "network analysis" to find these people. Employees are asked between five and 10 questions about who they associate with within certain spheres at work.

Anyone reading this will be able to recognise instantly various groupings in their own organisation – who goes with whom to the pub and who they meet there, who has had affairs with whom, the people who meet at the same table in the canteen every day, who share the same religion or went to the same school.

At this newspaper journalists who share certain interests are readily identifiable in message groups. In addition to departmental groups there are message groups for football, rugby, cricket, tennis, cinema and opera. There is one for people who frequent the pub and there is even one called "tightwad" where people exchange tips for saving money.

Within these groups, which cross international boundaries, it is possible to identify those who have specialist knowledge of, say, the West Indies cricket team, Welsh rugby or James Bond films.

Pulse-takers can be vital if a management is attempting to introduce change

The tendency of like-minded people to gravitate towards each other is not always healthy when a company is seeking diversity in its working groups. Prof Stephenson warns that such tribal groups can be exclusionary, masking a "fundamental fear of differences". Clearly if a company is seeking to introduce some kind of change in the workplace it will be in its interest to know these hidden networks and to understand their workings.

Lies at interview

An item two weeks ago about lie-detecting in job interviews produced a sceptical response from Rob Yeung, a psychologist at Nicholson McBride, a psychology-based human resource consultancy. Mr Yeung challenged the reliability of drawing conclusions about potential deceit from body language but he did support the idea of exploring details in an interview.

He also made the practical point that one of the best ways a recruiter can deal with potential lies among applicants, particularly involving qualifications, is to insist that the applicant produces their original degree certificate. "Once this sort of message gets round, people certainly won't lie about their qualifications," he writes.

He recalls one friend who routinely "improves" his qualifications on his resumé but who is nevertheless highly competent in his job. If candidates' abilities are tested in a job-related assessment, he argues, then paper qualifications become less relevant. "The real test is whether people can do the job," he says.

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WORKING BRIEFS

Headhunters earn lots but work long hours – US study

The hours are not too bad, the travel is hardly demanding, you get to mix with the top business decision-makers and sometimes you earn more than they do. No wonder the US publishers of a new recruitment study have concluded that headhunters are laughing all the way to the bank.

When partners' salaries are included within profits, the top 20 per cent of executive search firms had profit margins topping 60 per cent in 1997, according to the report published by Kennedy Information.

The study, based on interviews with 200 executive recruiters, found that only eight of them earned less than $100,000 a year. The average partner salary was $267,000. A third of those questioned earned more than $300,000 and more than one in 10 had annual earnings topping $500,000.

The research found that most partners were putting in 50 to 60 hours a week. It did not say how many of these were spent at lunch. The report is not cheap at $395 which probably means it is more likely to be bought and read by those in the businesses rather than clients who wonder where all their search fees are going.

Details: 001 603 585 3101

Call-centre staff

Competition for effective staff may turn out to be the biggest factor in improving pay and conditions for call-centre employees, according to research conducted by Office Angels, recruitment consultants. The research, which looked at 80 companies employing about 3,000 people in call centres or manning customer service lines, found that competition for skilled staff was driving the provision of incentives and attractive places to work.

The study also found that the best way for managers to win the respect of their staff at peak times was to join in and man the calls themselves.

Further research from Gallup has found high levels of customer retention related to the systematic recruitment of talented call-centre staff who are sensitive to clients' needs.

Details: Office Angels, Sarah El-Doori + 44 181 741 4000; Gallup, Hilary Osmend 01932 828628

BANKING FINANCE & GENERAL APPOINTMENTS

Investment Director - Private Equity

Dublin £Exceptional

Our client, a recently established private equity fund, has a clear aim of becoming a market leader in Irish venture capital circles, concentrating its investment activity on specific high growth sectors. Its goal is to achieve superior investment returns for shareholders, by improving the value of investee companies over a five year period and realising capital gains through eventual flotations or trade sales.

Having recently raised £15 million, there now exists an opportunity for a highly proactive individual to assume a role encompassing:

- the identification and evaluation of potential transactions;
- the structuring, negotiation and execution of approved investments; and
- the management of investee companies including all aspects of the exit process.

Candidates should possess excellent academic credentials, strong interpersonal skills and the ability to deal at the most senior levels across a range of industries. In particular, applicants should possess strong financial modelling skills in addition to strategic, commercial and entrepreneurial acumen.

It is likely that the successful applicant will exhibit one or more of the following backgrounds:

- corporate financier (ACA/MBA/lawyer/graduate) with at least five years' relevant transaction experience; or
- private equity/venture capital specialist seeking a new challenge; or
- strategic/management consultant who has experience in corporate finance from a leading consulting firm; or
- business development professional with experience of mergers/acquisitions and business strategy.

The remuneration package is designed to attract individuals of the highest calibre and will include a company car and performance related bonus.

Interested applicants should forward a CV, in the strictest confidence, to our retained consultants Brian Hamill or Robert Walker (London) or David Fahy (Dublin), at Walker Hamill Executive Selection, quoting reference BH5077.

WALKER HAMILL

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Le Quotidien de l'Economie

The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world.

For information on rates and further details please telephone: Karl Loynton on +44 171 873 3694

Banque Européenne d'Investissement
Une carrière au cœur de l'Europe

La **BEI**, l'institution financière de l'Union européenne a été créée dans le cadre du Traité de Rome pour faciliter le financement d'investissements à moyen et à long terme et contribuer au développement équilibré de l'Union européenne, recherche actuellement pour sa **Direction des Financements dans l'Union européenne**, à son siège à **Luxembourg** un (m/f)

Spécialiste du financement
à moyen et à long terme

Responsabilités: membre d'une équipe, et agissant selon les directives du chef de division responsable, il/elle aura notamment à: ☐ procéder à l'évaluation des risques, l'analyse et l'évaluation des résultats, de la situation financière, des perspectives et des décisions d'investissement d'entreprises, banques et collectivités; ☐ assurer la négociation et la définition des conditions de prêt et de structures de sûreté; ☐ contribuer au développement des activités de la Banque; ☐ assurer le suivi financier d'emprunteurs réguliers.

Qualifications: ☐ études universitaires en finance/économie; ☐ expérience professionnelle d'au moins quatre années, acquise au sein d'une banque, d'une institution financière ou d'un département financier et portant sur l'examen et la réalisation d'opérations de financement à moyen et à long terme; ☐ une excellente connaissance du **français** et une bonne maîtrise de **l'anglais** sont indispensables. La connaissance d'autres langues communautaires constituerait un avantage.

Compétences: ☐ aptitude à porter des jugements qualitatifs sur les risques de crédit et les garanties; ☐ aptitude éprouvée aux contacts avec les clients et à la négociation de contrats; ☐ excellente capacité à rédiger de manière claire et concise des rapports et recommandations de nature financière; ☐ connaissance des outils quantitatifs et informatiques.

Conditions: les candidats doivent être ressortissants d'un Etat membre de l'Union européenne. La BEI offre des conditions d'emploi et une rémunération attrayantes, accompagnées d'un ensemble d'avantages sociaux. Les candidatures féminines sont vivement encouragées.

Les candidats sont invités à adresser leur curriculum vitae détaillé, en **français** ou en **anglais**, accompagné d'une lettre de motivation **portant mention de la référence**, ainsi que d'une photographie, à la:

BANQUE EUROPEENNE D'INVESTISSEMENT, Division Recrutement (Réf.: PM 9802)
100, boulevard Konrad Adenauer, L-2950 LUXEMBOURG.
Fax: + 352 4379-2545.

Les candidatures seront traitées avec la discrétion de rigueur et ne seront pas restituées. Des renseignements généraux concernant la BEI sont disponibles sur Internet (http://www.eib.org).

State oil company Ireland Excellent package

Commercial Manager

INPC (Irish National Petroleum Corporation Limited) is a state owned Group of companies which operates commercially in open markets. It buys over 3 million tonnes of crude oil per year using sophisticated price risk management techniques and sells the petroleum products, which it refines from the crude, into the Irish market and to international customers in Europe and North America. The Group charters about 60 ships and loads or discharges some 700 ships per year at its refinery. In addition it owns and operates a 1,000,000 tonne oil transhipment facility which is capable of handling vessels up to 320,000 tonnes dwt. The Group now wishes to recruit an experienced commercial head of function with the competence and courage to help this vibrant oil company achieve its ambitions to grow and develop; reporting to the Chief Executive and a key member of the top management team.

Role

- Manage delivery of the current business plans to achieve annual and longer term commercial goals
- Contribute as part of the management team to the evolution of vision, strategy and plans for future corporate development of the Group
- Generate and maintain effective communications with customer, supplier, and industry groups

Profile

- Graduate, possibly in a commercial discipline
- 10 years relevant oil industry experience
- Commercial management - oil trading / supply
- Progressive career - reputation for achieving goals
- Enterprising commercial mind - business development flair
- People management - team player / leader
- Common sense, honest, fair, energetic, communicator

Excellent remuneration and benefits package on offer for this position

INPC is an equal opportunities employer

Barry Herriott
Search & Selection

Please write in confidence - and enclose a full c.v. to:
Barry Herriott, Management Consultant,
Whitebed Road, Greystones, Co. Wicklow, Ireland.
Tel/Fax: (Int'l access code +) 353 1 2872869

The Caudwell Group of Companies

International Managing Director

United Kingdom
£100,000
50% bonus
Executive Benefits

Our company operates an equal opportunities policy

The Caudwell Group is a rapid growth environment now comprising 13 companies in five countries, operating in the Mobile Telecoms Services and Distributions industry. The company's ambition and achievement is characterised by its phenomenal growth, with turnover increasing from £1 million to £350 million in eight years. And, with a forecast in excess of £2 billion by 2007, this will position the Group as a leading global distributor.

The role requires an outstanding individual to either develop an existing overseas business or to establish a new business unit. Responsible to the main board, the position will inevitably involve an overseas position, making location flexibility essential.

The successful candidate must:

- possess a highly commercial outlook with comprehensive financial knowledge;
- be experienced at Managing Director level;
- have a proven track record is successful P&L management;
- enjoy making tough strategic decisions in a high pressure environment;
- thrive in an autonomous culture;
- have the ambition to succeed within a progressive group; and,
- possess a clear idea of how best to lead and motivate a dynamic team.

Interested applicants are invited to forward a brief resume stating current salary details and highlighting key achievements to:

Jane Vernon, The Caudwell Group, Minton Hollins Building, Shelton Old Road, Stoke-on-Trent, Staffordshire, ST4 7RY. Fax: +44 (0) 1782 600609. Ref:FT3

Closing date: 20 November 1998

European Investment Bank
A career in the heart of Europe

The **EIB**, the financing institution of the European Union, is currently seeking for its **Credit Risk Department** at its headquarters in **Luxembourg** a (m/f)

Quantitative Credit Analyst
for the measurement of the credit exposure to derivatives

Duties: As a member of a team, the successful candidate will: ☐ strengthen the control of the credit risk exposure by the follow-up of the credit aspect of financial transactions; ☐ evaluate the entire derivatives portfolio and supervise its collateralisation; ☐ develop models for credit risk quantification.

Qualifications: ☐ good university degree with an excellent science/mathematics background; ☐ knowledge of the derivatives markets and hands-on experience in the valuation of structured derivatives; ☐ good knowledge of IT tools and programming skills; ☐ proven interpersonal communication skills and the ability to communicate effectively with laypersons.

Languages: Excellent knowledge of **English** or **French** and a good command of the other is essential. Knowledge of other Community languages would be an advantage.

The EIB offers attractive terms of employment and salary with a wide range of welfare benefits. Applications from women would be particularly welcome.

Applicants, **who must be nationals of a Member Country of the European Union,** are invited to send their curriculum vitae, **either in English or French,** together with a letter and photograph, **quoting the appropriate reference,** to:

EUROPEAN INVESTMENT BANK, Recruitment Division, (Ref.: CR 9801)
L-2950 LUXEMBOURG. Fax: + 352 4379 2545.

Applications will be treated in the strictest confidence and will not be returned. General information about the EIB can be found on the Internet (http://www.eib.org).

CJA RECRUITMENT CONSULTANTS GROUP
2 London Wall Buildings, London Wall, London EC2M 5UX
Tel: 0171-588 3588 or 0171-588 3576
Fax: 0171-256 8501 E mail: cjagroup@online.rednet.co.uk

Career opportunity working with traders at the leading edge. Your input will have a direct impact on performance.

TRADING SYSTEMS SUPPORT - UNIX/C++

Software development for statistical/econometric modelling

CJRA

LONDON **BASE SALARY £40,000 - £70,000 + BONUS**

FAST GROWING LONDON BUSINESS OF A PRESTIGIOUS US INVESTMENT FIRM

Due to our client's expanding workload and the development of new trading systems we invite applications from candidates, who are likely to be graduates, who must have had at least three years' computing background including at least one years' programming exposure (C/C++, Unix). This experience will have been gained in a fast-moving environment, possibly within the financial sector. Knowledge of statistics/econometrics whilst desirable, is by no means essential. Reporting to the Head of Research you will be responsible for assisting with developing software and maintaining a database to support existing trading systems. Important qualities are flexibility, good communication skills, to be detail-orientated and an effective team player. **Applications in strict confidence, quoting reference TSS8015/FT will be forwarded to our client in the first instance. If there are companies to whom you do not wish your application to be sent, these should be listed in a covering letter addressed to the Security Manager, CJRA.**

EURO LONDON APPOINTMENTS

BANKING WITH LANGUAGES

SETTLEMENTS SPECIALIST
£32K + Bens - Fluent German
Large Energy Co. seeks German speaking Settlements Specialist for its Energy Commodity Settlements Team. Responsibilities include overseeing settlement and reconciliations and development of internal reporting systems to capture and automate base input data. You will be a graduate with min. 2 years experience in financial or commodity derivatives and strong PC and systems skills.

CORPORATE FINANCIERS
Fluent European Language - £AAE + Bens
Our client ranks as one of Europe's leading Investment Banks. Opportunities exist to a senior level for individuals who are able to demonstrate a highly successful career within Corporate or Structured Finance. You will have exceptional interpersonal skills and ideally be MBA or ACA qualified.

PRIVATE BANKER
Fluent Arabic or Turkish - £Exc + Bonus
Leading Financial Institution is seeking two experienced Private Bankers with MBA and min. 3 years current experience to managing investments on behalf of and relationships with high net worth individuals from the Middle East and Turkey.

ASSET MANAGEMENT WITH GERMAN
c.£40K + Bens
Senior Manager required to oversee fund management operations and client liaison within highly pressurised environment. Relevant background essential.

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e-mail: ebbanking@dial.pipex.com
Visit our Website: www.eurolondon.com

PHARMACEUTICAL & TECHNOLOGY/MEDIA/TELECOMS
Research Analysts – Asset Management

London Based

Our client is a major asset management company with over $100bn under management and offices in the leading financial centres. The company is enhancing its capability to capitalise on strong growth potential in its core businesses and recognises the need to develop a highly focussed, global research team to achieve this.

The research analysts, who will be sector specialists, will initially cover Continental Europe and the UK and will be ideally positioned to influence investment decisions.

Key responsibilities will include:

- in-depth analysis of companies
- developing valuation models
- participating in investment decisions on stocks
- contributing to the management and development of the research product

You must be able to assimilate large quantities of financial and technical data and apply strong financial analysis skills to accurately forecast and value companies within your specific sector(s).

To be considered as a candidate you must have:

- 5 years experience gained within the pharmaceutical or technology/media/telecommunications sectors, investment banking, asset management or consulting
- excellent academic credentials
- a strategic appreciation of the dynamics of your industry sector and the financial markets

This is an excellent opportunity to join a leading firm in this field and to contribute to the development of a global team. Compensation will reflect contribution to the business.

Interested candidates should write in confidence to Stephens Selection 25 Cousin Lane, London EC4R 3TE or alternatively fax your details to: 0171 489 1130 or E-mail stephens@stephens.co.uk

STEPHENS SELECTION

A leading packaging company in Europe with attractive and ambitious corporate goals, is looking for:

THE EXECUTIVE ASSISTANT TO THE CEO

We are a market driven, global, fast developing and moving player, with over $1.2 billion in turnover. The personal assistant to the Chief Executive prepares specific analyses, supports the Executive Committee team needs, sorts out priorities, proposes solutions, maintains day to day travel and meeting arrangements, communicates with top customers, investors, analysis, journalists.

The position requires a business administration degree, multilingual abilities (English, German, and a third European language), full PC literacy, commitment to success and personal flexibility in working hours, self confidence and international experience. Overall, it is designed for a proactive personality.

The work location is Amsterdam. An attractive compensation package is offered.

Please, send your resumé in total confidentiality to: KESSLER & ASSOCIATES, 9 Place du Molard CH-1211 Geneva 3, E-mail: DidierKess@aol.com for further information and evaluation.

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The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world. For information on rates and further details please telephone: Karl Loynton on +44 171 873 3694

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ACCOUNTANCY APPOINTMENTS

Sadler's Wells

Financial Controller

Sadler's Wells has been a well loved feature of London's theatrical life for over 300 years, offering the finest dance, opera and modern music theatre. *The theatre has recently reopened following a £38 million* redevelopment project and provides a premier stage for the very best International and British touring companies.

Central London £40,000

As part of the senior management team, reporting to the Chief Executive, the Financial Controller has a central role to play in the continued success of *Sadler's Wells and the Peacock Theatres.*

The main responsibilities of this key post are:

- Managing the finance function on a day-to-day basis taking an active role in the development of staff.
- *Providing financial input on all strategic and* tactical issues affecting Sadler's Wells.
- *Preparing high quality financial information* including statutory reporting, monthly management *accounts and business reviews.*
- Maintaining and developing the management information systems.

The successful candidate will be a qualified accountant with *at least three years* post qualification experience and a proven track record at *management level.*

Excellent interpersonal skills and the ability to manage people effectively are essential, as is a hands-on approach. Good systems skills would be an advantage.

Interested candidates should write, enclosing their CV and details of current package, to Matthew Morris at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Fax: 0171 831 6293. e-mail: matthewmorris@michaelpage.com Please quote reference 463614.

Sadler's Wells is committed to equal opportunities.

Michael Page

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the Institute of Management

Director of Finance

The Institute of Management promotes the development of management skills and qualifications in the United *Kingdom and is primarily concerned with supporting individual members committed to effective management* in all spheres of activity. The Institute is currently undergoing a process of cultural and structural change to ensure that it serves *the needs of its 84,000 members and those of the wider management community,* both now and in the future.

Corby c £60,000 + Car + Relocation

Reporting to the Director General, the Director of Finance will play a critical role in the continued success of the Institute. As a key agent of change, the incumbent will be responsible for ensuring the *adoption* of best business practice in all areas of accounting, *information systems, human resources and facilities* management. Specific responsibilities include:

- Developing and implementing the Institute's financial strategy, in addition to influencing the *overall strategy of the organisation as a member of* the Management Committee.
- Improving business results through *internal* consultancy, performance audit and quality standards.
- Improving information and communication management systems and technology which support the Institute's planning and operations.

Candidates will be graduate qualified accountants with a proven track record at senior *level gained* within a customer orientated, quality driven, service environment. *Essential personal qualities will* include strong communication and influencing skills, a *mature style in problem solving,* commercial acumen and clarity of strategic vision with the energy to translate vision into reality. Whilst based at the Institute's offices near Corby, the individual will be expected to operate on occasion at its central London office.

Interested candidates should write, enclosing their CV and details of current package, to Gary Watson or Stephen Rutherford at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Fax: 0171 831 6293, Please quote reference 463681. e-mail: stephenrutherford@michaelpage.com

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INVESTOR IN PEOPLE

Lombard Direct

Enfield to £40,000 + Car

Lombard, part of the NatWest Group, is the largest finance house in the UK, providing finance to the personal, business and motor market with customer balances of over £13 billion and annual profits of approximately £200 million. Lombard Direct specialises in providing direct personal financial services and has attracted over a quarter of a million customers since its inception in 1996. Due to continued expansion two new opportunities have been created which will report to the Head of Finance.

Controller

Planning and Management Accounts

- Development of processes and systems including activity based costing and planning modelling.
- Input to new product initiatives.
- Production of monthly management information and quarterly reporting.
- Co-ordination and development of the annual planning process.
- Responsibility for four accountants. Ref 45280

New Product Controller

- Working with project teams to determine financial and control requirements.
- Development of financial reporting and control for new products including joint ventures.
- Integration of new product reporting into existing processes.
- Liaison across business functions on new product launches.
- Close liaison with financial and management reporting teams. Ref 464815

The successful candidates are likely to be pro-active qualified accountants with the ability to work on their own initiative. Adaptability, creativity and an ability to work across business functions are essential. The Controller, Planning & MA must be able to demonstrate proven man-management skills.

If you have the ability to contribute to the continued success of Lombard Direct, please send your CV to Nicky Binning at Michael Page Finance, Centurion House, 136-142 London Road, St Albans, Hertfordshire AL1 1SA, telephone 01727 865813, fax 01727 841616 or e-mail: nickybinning@michaelpage.com. Lombard is an Equal Opportunities Employer.

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Strategy Development Manager

Thomas Cook

London, W1 Excellent Package

Are you one of the 20 million people reading this advert who have used Thomas Cook's services this year?

If so, you may know that the Group offers a wide range of travel and financial products and services to both consumers and business customers.

Over the past few years, the Group has been building on its product range and now has a dynamic mix of mature and emerging businesses with global reach. Two of the most recent developments have been the launch of a new business, Global Services, and the strengthening of the Group's position in the UK travel market by the acquisition of Sunworld and Flying Colours.

These achievements represent a strong and exciting *platform for the future development of the Group.* In recognising this, a new role has been created in the Group strategy team to deliver strategic solutions.

Working in conjunction with the Head of Group Strategy and the Managing Director of Corporate Development, this role will have a wide and varied brief encompassing the following:

- Significant contribution to the definition of the Group's long term direction.
- Specific responsibility for managing projects to address key strategic issues.
- Introducing planning and measurement tools to improve the planning process.
- Pro-actively assessing ideas to identify opportunities and their fit with strategic priorities.

This key role requires an ambitious, solution driven individual with a recognised business qualification, combined with commercial strategic experience. Recognised as a senior influencer in your current organisation, you will have an enquiring approach, be capable of assimilating a wide range of information and distilling the critical issues. You will also possess the drive and determination to ensure that The Thomas Cook Group remains a global market leader.

If you feel you could add value within this exciting role, please contact our retained consultants Neil Murphy or Laurence Pengelly quoting reference number 463564 at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Telephone 0171 269 2335, fax 0171 242 1020 or e-mail: neilmurphy@michaelpage.com

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3i

Corporate Finance

London £ Excellent

3i Corporate Finance is 3i's corporate finance advisory division, whose mission is to add value to 3i's investment portfolio through deal creation initiatives and the quality of its advice to 3i's investment division and investee companies.

3i Corporate Finance is seeking to recruit an ambitious professional to join its London team.

This is an *exciting opportunity for a* commercially astute Chartered Accountant or a *candidate who has already obtained some* corporate finance experience and is interested in furthering his or her career by joining Europe's leading venture capital company.

You will be able to demonstrate:

- Strong academic background, with a 2:1 degree or better from a leading university.
- Ability to liaise with entrepreneurial clients at a senior level.
- Strong analytical, technical and *communication skills.*
- *Initiative, creativity and maturity.*

Interested candidates should contact Arabella Pack or Annabel Haywood at Michael Page City, 50 Cannon Street, London EC4N 6JJ, fax 0171 329 2986, telephone 0171 269 1867, quoting reference 463389. e-mail: arabellapack@michaelpage.com

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Manager, Internal Audit & New Business Integration

Career development opportunity with a rapidly growing international service group

Netherlands/Germany Excellent Package ++

Cleanaway Europe is a highly acquisitive joint venture company of GKN plc and Brambles Industries of Australia. The group's activities include household and industrial waste collection, recycling and disposal and the provision of innovative solutions for clients' waste management problems through operations in the UK, Germany and the Netherlands. The company has a turnover of approximately £500 million and has ambitious plans for further expansion.

As a result of this growth, the company is seeking to appoint a Manager, Internal Audit and New Business Integration. Reporting to the European Head of Audit and New Business Integration, initial responsibilities will be focused mainly in Germany and the Netherlands, where you will manage and develop the audit team. This will include planning and delivering the audit programme covering both the financial and operational aspects of Cleanaway's business, assisting with new business integration and reporting and communicating with senior management and shareholders.

This is an exciting opportunity to contribute to the development of the group. The opportunity should appeal to dynamic, achievement orientated individuals seeking a mobile, hands-on management role in an environment which offers real prospects for career progression.

Fluent in German and English, you will be a qualified accountant with demonstrated experience in internal audit (German and UK GAAP) and risk management and an *appreciation of the realities of integrating new businesses.* Good communication and management skills together with the ability to relate and work with management and staff across the entire organisation are essential.

If you are interested in applying for this outstanding opportunity, please send a comprehensive curriculum vitae and accompanying letter (in English) to Erika N. Schaeffer MBA, Michael Page International, "World Trade Centre", Strawinskylaan 1057, 1077 Amsterdam, The Netherlands, telephone 31 20 5789444. Ref WES/54542. e-mail: erikaschaeffer@michaelpage.com

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Junior Accountancy Appointments in the FT.

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For more information on advertising opportunities please call: Tel: +44 171 873 4006 Fax: +44 171 873 4331

DIRECTOR OF TREASURY

Manchester — UCI — **Attractive Package**

In little over 10 years, the Multiplex has revolutionised the cinema industry in Europe. UCI has led this development and is now looking to accelerate its global expansion programme, further strengthening their position as market leader. In order to support this growth strategy, they seek to appoint a high calibre Vice President - Treasury.

THE POSITION

- Ensure effective funding and balance sheet management strategies are evaluated and implemented to facilitate further international growth and development.
- Devise and initiate systems and processes to optimise positions over interest rate and foreign exchange exposures and protect group profits.
- Proactively support the group's international expansion through providing funding and financing expertise, particularly with regard to new territories and joint ventures.
- Maintain and develop strong relationships with banks and external advisors along with senior executives internally.

QUALIFICATIONS

- Graduate ACT/MBA, aged early to mid-30s with a breadth of treasury experience gained within growth orientated international businesses.
- Strong team player with high levels of energy. Able to work effectively on multiple projects and undertake international travel where necessary.
- Excellent communication and presentation skills, credible at board level and able to work effectively with third party advisors.
- A positive, hands-on approach with a strong commercial focus and a desire to succeed within a dynamic and competitive business environment.

Interested candidates should write, enclosing full career and current salary details, to the advising consultants, Stephen Banks and Robert Berkeley, at Questor International, 3 Burlington Gardens, London W1X 1LE. Please quote reference 2548. Telephone 0171 292 8300, Fax 0171 287 5457, e-mail: lisa@questorint.com

QI
QUESTOR INTERNATIONAL

HEAD OF FINANCE – OPERATIONS

CONSUMER GOODS SECTOR – GLOBAL BRAND LEADER

MIDLANDS — **c.£60,000 + BONUS + BENEFITS**

- One of the most established and widely recognised global brand businesses with Group sales in excess of £4 billion. The UK Division is recognised as market leader with sales that exceed £1 billion. Portfolio of high profile brands and culture of quality, consistency and innovation.
- Reporting to the UK Finance Director, this position is key in improving business performance through applying innovative financial planning and analysis, control and decision making support in line with value based management philosophies.
- As a member of the Operations management team, key tasks are to provide financial leadership; deliver regular financial reports on performance; provide value adding financial service across the business and ensure adequate measurements and controls are in place for inter-group sales.
- Graduate and qualified Accountant with proven record of financial management and analysis with at least 2 years experience in a manufacturing industry, preferably, although not essentially from a Fast Moving Consumer Goods business. Proven track record of improving financial performance as part of a function that is regarded as high profile and value adding.
- Intellectual and technically strong yet commercial and pragmatic in application with maturity and credibility to command the respect of non-Financial Managers at all levels and create effective relationships throughout the business.
- Tough, challenging and persuasive style with gravitas and presence. Well developed interpersonal and communication skills with a natural orientation to customer service and delivering results through others. A proven leader and team builder with long term career aspirations for further openings in the UK and overseas.

Please apply in writing quoting reference 1732
with full career and salary details to
Toby Lapage-Norris
Whitehead Selection
4 The Courtyard, 707 Warwick Road, Solihull B91 3DA
Tel: 0121 709 0909, Fax: 0121 709 0479
www.whiteheadselection.co.uk

Whitehead SELECTION
A division of Whitehead Mann Ltd, a Whitehead Mann Group PLC company

FINANCE DIRECTOR
FOOD MANUFACTURING

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FINANCIAL TIMES
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FT SPORT: GOVERNING BODIES UNDER SIEGE

Ringmasters under fire on many fronts

The old order is crumbling as money brings new pressures to bear on those in charge of world sport. In this special report, **FT writers** investigate the commercial and legal challenges posed by the closing years of the first century of organised professional sport

The governing bodies of sport are among the world's last great dictatorships.

Traditionally, organisations such as the International Olympic Committee and Fifa, soccer's ruling body, have exercised almost absolute power over their sports, both at the professional and amateur level; nationally and internationally. They influence the lives of millions of people worldwide, and control events worth billions of dollars.

They are often run by powerful individuals – Juan Antonio Samaranch at the IOC, Joao Havelange, former head of world soccer, Primo Nebiolo of the International Amateur Athletic Federation, and Formula One's Bernie Ecclestone. These men rule with an autocratic, sometimes unforgiving, hand. They have their own rules and systems of regulation, built up apart from the laws of the wider world.

As the first century of organised, professional team sport draws to a close, however, the governing bodies are under attack from all sides.

The challenge to their authority comes from the athletes and players, from the clubs and franchises which employ them, from sport's owners and investors, from sponsors and broadcasters, even from governments and international organisations.

The common thread is a simple one: money. As sport has become ever more popular, so the commercial interests seeking to exploit its appeal have sought greater control over how it makes and spends its riches. The athletes have come under new pressures: some are tempted to use illicit drugs to improve their performance, while others have exercised their new financial muscle to win huge wage contracts. Governments have begun to take an interest.

For their part, the governing bodies believe it is right that they should remain in charge because only they are in a position to decide what is in the best interests of all in sport. Even if their rules fall foul of established business law or social contracts, they believe sport is different and deserves special treatment.

Increasingly, others disagree, and are taking the ruling bodies to court to prove that sport cannot operate outside the law.

In the UK, the government has taken the English Premier League of soccer to court over its system of negotiating television rights collectively. Top English rugby clubs are preparing a legal battle in the European courts to wrest more control. In Australia, rival rugby leagues have battled it out for the right to run the sport's main competition. In motor racing, Formula One's promoter finds his commercial agreements with the governing body under investigation by the European Commission.

It is by no means certain that the governing bodies will be stripped of their powers. Quite the contrary, there is a case to be made for allowing the sports authorities special freedom to organise their activities.

The Italian and German governments are already working on a proposal that European law be amended to afford sport exceptional treatment. The European Commission is drawing its own guidelines on the application of competition law in sport.

Amid these initiatives and pending court battles, a new era in sport is emerging. The governing bodies were forged at a time when the amateur ethic ruled, and now are having to learn to adapt to a new professional and commercial era. Those that display the most flexibility, and willingness to accommodate the new forces in sport, will be most likely to survive with some of their powers intact.

Patrick Harverson

SOCCER

Tug of war over game's purse strings

It took an obscure Belgian footballer named Jean Marc Bosman to expose the soft underbelly of soccer's once all-powerful authorities.

His challenge in 1995 to the system governing the transfer of players within Europe proved that the sport could not operate outside the law. Its repercussions are still being felt today.

Since Bosman, football's governing bodies have faced challenges to their authority from all sides, and at all levels of the game.

Only this month, Fifa, the world governing body, was told by the French Football Association that the country's national team would not, after all, play in the Confederations Cup in Mexico this January.

A few years ago such a move would have exposed the French to the threat of stiff penalties from Fifa. Yet the governing body's reaction to the late withdrawal of the world champions was one of meek resignation. Fifa chose not to stand up to the French association, which in turn had bowed to pressure from the leading European clubs, particularly in England, which did not want to lose their French stars for several weeks in the middle of their season.

It is the clubs, whose growing power derives from their popularity and the huge sums of money generated by the sale of league and cup television rights in Europe, which increasingly hold the upper hand in football, as Uefa has found to its cost this year. The European governing body has been forced to overhaul the structure of its competitions to head off the threat of a rival breakaway super league that was tempting the continent's top clubs with the promise of more money.

Emboldened by Uefa's capitulation to their demands for a greater say in the organisation of European competitions and a bigger share of their revenues, the clubs are now seeking control over the marketing of commercial rights and the distribution of the revenues they generate.

Sepp Blatter, Fifa's president, said this week that he was worried not so much about the growing power of the clubs, as the "dwindling respect" they have for soccer's institutions. The two issues are, of course, one and the same: the clubs have less respect for the governing bodies *because* they have more power than ever before. Logically, the clubs may soon demand compensation for the use of their players by national teams.

Uefa is not just battling with the clubs, but with their investors and owners. The emerging trend for companies to buy more than one club in different countries prompted Uefa to introduce a rule banning clubs under common ownership from playing in the same European competition – it feared the potential for match rigging by multi-club owners.

Enic, the UK sports group that owns four European clubs, successfully appealed to the Court of Arbitration for Sport in Switzerland for a temporary ban on the new rule. Enic believes that if Uefa gets its way, small and medium-sized clubs in Europe will be starved of investment. The court is due to make a final ruling soon.

Soccer's national associations are also under fire. In Brazil, the game's authorities tried to stop the government from imposing reforms on the sport, something that in the past has infuriated Fifa, which has long believed politicians should stay out of its affairs. The reforms were pushed through.

In Germany, the football association has reluctantly agreed to allow clubs to convert into public companies and float on the stock market. The decision came close on the heels of an unsuccessful attempt by Germany to exempt its association from domestic anti-trust rules. In Italy this year, the authorities were powerless to stop four of the biggest clubs signing an exclusive pay-per-view television deal that brought to an abrupt end decades of collective bargaining by the league.

These conflicts and others share a common underlying theme. The governing bodies may maintain ownership and control of the game's crown jewels like the World Cup and the European Championships, but the commercial interests in soccer want the freedom to exploit the financial opportunities created by these events and the sport's enormous popularity.

The governing bodies are reluctant to grant that freedom because they do not want to give up control of soccer's purse strings, and because they believe limits on commercial activities, investment and ownership, and the centralised marketing of commercial rights are essential to maintain the sport's health.

Increasingly, the courts or governments are being asked to resolve these issues. Which is why after decades of more or less benevolent dictatorship within their own sphere, soccer's governing bodies feel the need to ask organisations like the European Commission for special treatment. "Fifa is on its way to Brussels," said Sepp Blatter this week.

Just a few years ago, Fifa would have told Brussels to mind its own business. Today, soccer's supreme power cannot afford to be so disdainful.

Patrick Harverson

RUGBY

Turmoil reigns as top clubs rebel

Nowhere is the conflict between governing bodies and the newly empowered commercial forces in sport better illustrated than in English rugby union.

Ever since turning professional in 1995, the sport has been tearing itself apart. The top English clubs have been fighting the Rugby Football Union for control of international players, the right to organise club competitions and distribution of the revenues they generate.

The elite clubs, many of them backed by wealthy businessmen seeking a profitable return on their substantial investments in the game, think the RFU should stick to running the national side, monitoring the rules and administering amateur rugby. The RFU believes it should continue to run rugby for the benefit of all.

The result has been turmoil, with competitions disrupted and clubs facing financial ruin as they struggle to earn enough to cover their inflated wage costs. The broadcasters and sponsors are furious, and the sport's fans left confused and angry. It has been an object lesson in how to get it wrong.

There were signs of hope in May when the clubs and the RFU signed the Mayfair agreement, limiting the number of games played by top players in a season and guaranteeing their relase for England duty. But the RFU remains concerned the agreement is too loose – it is little more than a single sheet of paper – and wants something more watertight.

The top clubs, however, are still fighting for the right to organise their own competitions (they are keen to set up a British league), and to negotiate their own broadcasting and commercial agreements.

They are willing to resort to law to achieve their aims, and have filed a complaint with the European Commission against the RFU and the International Rugby Board, the world governing body, arguing that the sport's authorities are unlawfully restricting the commercial freedom of clubs and distorting competition in the supply of services in rugby.

Unless a secure peace deal between the clubs and the governing body can be reached soon – and there is no sign of any imminent agreement – the European Union may end up settling the dispute.

Other northern hemisphere unions are also fighting battles against clubs and players seeking greater commercial autonomy. The Welsh Rugby Union has seen its two biggest clubs, Cardiff and Swansea, break away in preparation to join a new British league, while the Irish Rugby Football Union is in dispute with Keith Wood, the national team captain, over control of intellectual property rights.

In rugby league, there is more harmony between the clubs and the authorities, but the governing bodies in both the northern and southern hemispheres have struggled in recent years to maintain control over the organisation of competitions.

In Britain, the Rugby Football League three years ago effectively ceded many of its powers to the sport's main backer, the satellite broadcaster BSkyB. The RFL agreed to move the season from winter to summer and approved the creation of an elite Super League. This has increased tensions between the big and small clubs, and between the RFL and the Super League, over the distribution of the game's income.

Yet at least a massive split in the game was avoided, unlike in Australia. The Australian Rugby League fought a long court battle to destroy a rival Super League established by Rupert Murdoch, the media mogul who also controls BSkyB. The three-year battle, which ended last December, is estimated to have cost the sport more than £200m in losses and legal fees.

Patrick Harverson and Huw Richards

DRUGS

IOC and cycling chiefs left on sidelines

When sprinter Ben Johnson was kicked out of the 1988 Olympic Games in Seoul after a positive dope test, not only was it one of the biggest shocks in 20th century sport, it was the most authoritative message ever sent out by a governing body on the question of drugs.

Yet 10 years later, the International Olympic Committee has been largely overtaken by events as one sport after another falls prey to the use of performance-enhancing drugs.

No body has floundered quite so visibly as the International Cycling Union, during this year's scandal-ridden Tour de France.

Since then, the ICU has announced measures designed to reduce the use of banned drugs in cycling.

These include three-monthly medicals which, in the absence of reliable laboratory tests, will attempt to establish whether riders' bodies are being manipulated with banned hormones such as erithropoetin (EPO), which increases the number of red blood cells and hence improves endurance.

The ICU has also set up a Council For the Fight Against Doping, funded by race organisers, cyclists and sponsors, and it is apparently working on a charter that will bind riders to abide by anti-doping rules, presumably to reduce their room for legal manoeuvre.

Yet when three cyclists who were thrown off the Tour de France over drugs were banned in October, the ICU reduced the bans by a month, stating that this was to enable the cyclists to ride the necessary races to gain form for next year's Tour. Its defence was that otherwise, the riders could sue for loss of earnings.

The IOC's response has been no less confused. Juan-Antonio Samaranch, its president, caused a storm in July by calling for a reduction in the list of banned drugs, leaving only "those drugs which are really prejudicial to the health of sports people and which produce artificial results". Prince Alexandre de Merode, the head of the IOC medical commission, said he was "appalled".

Senior IOC members have also clashed over whether East German athletes known to have used drugs should have their Olympic medals withdrawn.

The organisation has moved to regain the initiative by calling an international drugs seminar in Lausanne next February. This will aim to clarify the definition of doping, and may set up an agency to co-ordinate anti-drugs measures. However, such initiatives have already come too late to head off the civil authorities.

Last week Mario Pescante, the former head of the Italian Olympic Committee, was formally placed under investigation as part of an ever-widening inquiry into the distribution of illegal drugs.

In cycling, at least 10 separate police investigations are under way into possible use of drugs by riders, teams and trainers in Italy, France and Belgium. Some national cycling federations, in particular the French, want to go further and faster than their international parent body.

Samaranch wants to keep the drugs issue within what he likes to call "the sports family". With every arrest, and every national or international body that breaks ranks, his hopes of doing so recede further.

Pat Butcher and William Fotheringham

FORMULA ONE

Competition watchdog puts the brake on Ecclestone

For those who govern, bankroll and benefit the most financially from Formula One, the enemies are almost all without. More specifically, they are concentrated in the person of Karel Van Miert, the European Union competition commissioner.

Van Miert has made little secret of his belief that the assignment of F1's global broadcasting rights by the world governing body of motorsport, the Paris-based Fédération Internationale de l'Automobile, exclusively to companies run by its own vice-president, Bernie Ecclestone, may breach EU competition rules.

That belief, and the formal investigation which for nearly a year has accompanied it, has had a profound effect on Ecclestone and his companies commercially, and may yet have a significant impact on the financial future of all involved with F1.

The broadcasting rights are an enormous issue for F1, both because of what Ecclestone has achieved with them in the past – financial security and organisational stability for the teams as well as great wealth for himself – and the even bigger benefits expected to flow from digital pay-per-view television in the future.

Two decades ago, F1 was a marginal sport in which individual promoters and circuit owners negotiated haphazard broadcasting and sponsorship deals for whatever money they could get.

Ecclestone's achievement was to transform F1 into a global championship package, provided on a single feed to satellite and terrestrial TV companies covering 200 countries. It has been central to the concept's success that all broadcasters must commit to covering all the year's 16 or 17 championship rounds. The FIA and the teams share in the revenues – the latter under the terms of the so-called Concorde agreement governing relations between them and Ecclestone's companies.

The European Commission suspects that these arrangements, under which the FIA has granted the rights to Ecclestone until 2010, represent a cartel, unfairly preventing other broadcasters and grand prix organisers from making their own deals. The FIA, Ecclestone and – after some fierce haggling over revenue-sharing last year – the teams are united in declaring that this is a misunderstanding of an arrangement that has worked to the benefit of all concerned.

The issue has led to a rare setback for Ecclestone, whose plan last year to float his Formula One Holdings group – with the FIA's and the teams' belated approval – had to be abandoned over the broadcasting rights uncertainty. He now plans a $2bn Eurobond offering as an interim step towards flotation.

Broadcasting is not the only issue on which motorsport has locked horns with Brussels. F1 has been reprieved from a looming EU ban on tobacco sponsorship of sport mainly because it is prepared to institute its own ban on tobacco industry support – its current financial mainstay – once substitute funding is found early next century. The FIA, the teams and Ecclestone have closed ranks to threaten that, if the worst comes to the worst, F1 could decamp to less restrictive regions.

There are still strains inside motorsport itself – plans by Ecclestone and the FIA to bundle other forms of motor racing into similar exclusive packages are meeting some resistance. But with such enemies as Brussels without, few are anxious to rock the boat too heavily from within.

John Griffiths

AMERICAN SPORT

Parity rules in land of the free

When it comes to dealing with players' unions, recent events in basketball show that US sports' ruling bodies have problems. The National Basketball Association is locked in dispute with players over how big a share of revenues they should take, which at present looks as though it could force the abandonment of the entire season.

The dispute – and similar ones that have previously afflicted other big US professional sports – has its roots in a commercial franchising structure that allows American sport to generate huge amounts of money. Yet that very model, perfected by the National Football League's late commissioner Pete Rozelle, has saved US sport from many of the pressures now rocking its European counterparts.

Thirty years ago, professional American football was a small affair, dwarfed in popularity by the amateur college game. Its growth is widely attributed to strategies implemented by Rozelle, all of which took as their assumption that it was in individual clubs' long-term interests to boost the overall strength of the league.

The NFL has no jurisdiction over the amateur game. It acts as a commercial body, which awards franchises to businessmen.

Revenue-sharing, introduced in 1960, was the most important innovation. Rozelle saw that it was not in the league's interests to allow the largest clubs to grow too powerful, and attempted to ensure parity. Thus television and marketing revenues are negotiated centrally, and shared by all clubs (although clubs keep stadium receipts). A salary cap, meanwhile, restricts teams' scope to bid up players' wages.

With the major sources of revenue shared, and with the rigid draft system ensuring that the weakest NFL team one year gets first choice of college football players the next, the truly great teams are those with the best coaches and judges of young talent – such as the San Francisco 49ers over the past decade – rather than those with the deepest pockets.

The Green Bay Packers' victory in last year's Super Bowl, an event which greatly energised interest in the sport, would have been inconceivable under the revenue arrangements for the UK's soccer Premier League, for example. Green Bay is a small city, and this would have been the equivalent of underdogs like Burnley or Accrington Stanley winning the English Premiership.

The NFL has expanded, but it has done so slowly, to try to avoid any dilution of quality. The supply of the game has also been rationed. No team plays more than one game a week, and the season is strictly limited to four months.

For more traditional sports, the NFL experience would appear to offer at least two lessons. First, that it is far easier to start with a clean slate, than to apply the model to an existing structure – especially one where professional and amateur versions of a sport co-habit. Even baseball, where the clubs grew up first and built their league structure afterwards, has never been able to match the NFL's marketing nous.

And secondly, that subsuming immediate, short-term interests to the common good can pay off handsomely in the long run.

John Authers

POP

Stuck in the 1960s groove

How much more can we take of this exhumation of rock music's legendary figures? asks Peter Aspden

"Are we on TV? No, we're on a train heading to Tulsa." When Elvis Presley picked up his semi-acoustic guitar to play some old hits on the NBC Burbank sound stage in the summer of 1968, he could be forgiven a sense of disorientation. It had been many years since he had done what he did best: performing blistering versions of rock and roll songs in front of a live, and usually adoring, audience.

His career had been hijacked by advisers who succeeded in turning him into a matinee idol, his crooning baritone littering a series of cheesy B movies with winsome banalities. The vitality and daring of the Sun recordings and the first hit singles seemed a long time past, and rock music had already moved through Beatlemania, psychedelia and bringing down world order.

So he sat on stage with his old buddies, hair greased back with anachronistic neatness, joking nervously: "Are we on TV?" Of course he knew he was, but his sidekicks joined in his jittery conceit: "No, we're on a train heading to Tulsa." And somehow, miraculously, they began to play like the past 10 years hadn't happened.

The results became known as the 1968 Comeback Special. It was a poignant evening for Elvis fans; for it was not so much a comeback as a death spasm. Presley sank from this brief triumph to Las Vegas, obesity and ultimate ridicule. The Comeback Special was nothing but an ephemeral moment of what-might-have-been.

With admirable taste, Presley's record company, RCA, has reworked the legend of the 1968 NBC concert to launch its "Artist of the Century" campaign on behalf of the too easily mocked protagonist. The freshly released *Tiger Man* is a definitive record of the second of the evening's two shows, and sees Presley at the very peak of his abilities. It is a passionate, life-affirming performance, not without its moments of desperation, almost as if he knew this was his last chance, and he knew he was going to blow it.

The release of *Tiger Man* is not dissimilar in intention to the long-awaited release of Bob Dylan's *"Royal Albert Hall" Concert* from 1966, reviewed in these pages last month. Once again, we are presented with an apparently seminal moment in rock history: Dylan's controversial conversion from acoustic folk singer to electric guitar-wielding Symbolist rock-poet.

As a contemporary reviewer wrote: "Dylan used to sound like a lung cancer victim singing Woody Guthrie. Now he sounds like a Rolling Stone singing Immanuel Kant." But what screeds have been devoted to this epochal change of musical direction, the very plugging-in of Dylan's guitar standing as a defining moment of socio-cultural transformation.

So, Presley unplugged; Dylan switched on. This week sees yet another rock icon, John Lennon, receive the reverential retrospective treatment, with the release of the four-CD *The John Lennon Anthology* on Capitol. The aim here is slightly different; instead of focusing on the individual moments which make the Presley and Dylan records so compelling, we are presented with the lurching trajectory of a career, presented as *de facto* evidence of the terrible price of artistic integrity.

There is a genuinely moving sleeve note from Yoko Ono; beautiful packaging, adorned with Lennon's free-flowing artwork; a blend of outtakes and home recordings which, as in *The Beatles Anthology*, may occasionally fascinate the *aficionado* but will surely leave new, younger listeners cold.

Lennon's post-Beatle career is neatly separated (as if) into four CD-sized slices: "Ascot", the early, primal scream period; "New York City", the energising move to the US; "The Lost Weekend", the drunken binges and re-embrace of rock and roll; and "Dakota", the years of domestic contentment.

Once more, hindsight plays the leading role in giving this decade in Lennon's life its artistic significance. At the time, received wisdom was that Lennon's creative juices had run dry, once he had given vent to his rage on his exorcising first solo album, *Plastic Ono Band*.

But the translucence of Lennon's ingenuous personality usually gave good copy; and there are highlights on this rambling set. His nastiest moment, the hateful letter to Paul McCartney, *Imagine*'s "How Do You Sleep", sounds still more vicious here, stripped of the original's incongruous string backing to emphasise George Harrison's mocking slide guitar. But how much more do we need to hear of that particular relationship?

Indeed, how much more can we take of this obsessive exhumation of rock music's legendary figures? These releases are not wholly spawned by record company cynicism. They are not Greatest Hits packages; they pretend to something more profound. Of course those companies are thrilled to find that a fruity chunk of the demographic pie-chart still wants to wallow in the soundtrack of its youth; *The Beatles Anthology*, three triple-CD packages, has sold a combined total of more than 1m copies in the UK alone.

But there is a more subtle subtext at play. In defining and replaying these moments – Presley's evening of long-forgotten zest, Dylan's truculent *volte-face*, Lennon's anguished attempts to discover himself – we are investing them with a special significance. They have become canonical. They cannot be repeated. Today's acts – many of whom pay explicit tribute to their predecessors – must live forever in their shadow. Robbie Williams makes girls scream; Alanis Morissette packs a vicious couplet; Liam Gallagher is no mean tortured soul lost in a hedonistic haze. But it has all been done before. As in the classical arts, the gaze of rock music, that celebration of youth, contingency and nowness, is ever more more firmly fixed on the past, when a train heading to Tulsa promised unknown treats and the only way was forward.

Too much style, too little heart

THEATRE

ALASTAIR MACAULAY

Britannicus
Albery Theatre, London WC2

One of the reasons that Racine stands among the supreme dramatists of all time is that he slices clean into the core of things that are dramatic to us all. The need to confide; the importance of the right confidant; or the treachery of the wrong confidant. The still eloquence of listening; and the shock of unexpected news. The thrill of the corridors of power; the tension of waiting in an antechamber; and the sense that the greatest events are occurring elsewhere, perhaps next door. Empire; passion; duty; ambition; horror; the secret Achilles heel where even the mighty become made vulnerable... Racine puts us on the rack at the rise of the curtain, and never allowed off it.

We can feel that this is true in the new Almeida production of *Britannicus* – but without feeling, alas, that there is much truth in the production itself. It remains thrilling to have a Racine season in the West End; and I would like later – as one may – to see both this and the same team's *Phedre* back to back in a single day. As in *Phedre*, the performances of Barbara Jefford (as Albina, confidante to emperor Nero's mother Agrippina) and David Bradley (as Burrhus, Nero's tutor) are exemplary; in them, the classicism of Racine is both sincere and ardent. They make the very pulse of his verse seem heartfelt; absorbing.

Elsewhere, however, we watch Racine's amazing political thriller as if from too great a distance. There is a lot of style around; much of it wrong style. Actors – notably young Kevin McKidd in the title role – lay massive emphasis on *too many individual* words *per sentence*. There is much too much ineffectually "realistic" pacing around the stage (notably McKidd again), and a bit too much fidgety modern-dress "business" with cigarettes and decanters. In the big scenes and speeches, single details loom; but the verse's inner pulse is often too steady, and the larger design of each scene frequently becomes obscure.

This is especially true of the climactic and long-delayed meeting in Act Four between the young emperor Nero and his mother, Agrippina. She knows her power over him is tottering; he knows his debt to her, and begins to feel the Orestes urge to remove both it and her. The scene should be a turning-point – if only for a while – for the entire drama. In neither Diana Rigg nor Toby Stephens, however, does it touch deep chords. Their big speeches are defensively bright, with no jot of deeper emotional power-struggle to be glimpsed. They both know how to stand, to catch the light, to pause, to make effects. The wrong effects, alas; or merely obvious ones.

That Diana Rigg is considered one of our leading actresses is absurd. She is all handsome surface: intelligent, invulnerable, and never once sincere. The essential campness of her acting method is disguised only by its energy. Why didn't Lloyd Webber put *her* on in *Sunset Boulevard*? For her, all roles are Norma Desmond. Stephens is fruity, flashy, pretty, shallow.

Robert David MacDonald's new translation manages the rare feat of catching Racine's metre in hexameter couplets that rhyme or half-rhyme. It tends to be lightweight. Or slick: Nero's "We have declared an armistice" is too glossy a version of "On nous reconcilie".

As directed by Jonathan Kent (and briskly paced), the play is alive, and an honourable addition to West End fare. But Racine's technique and content do not here merge in the best proportions.

Sponsored by AT&T.


All handsome surface: Diana Rigg and Toby Stephens   Alastair Muir

SPONSORSHIP

Bank set for a good show

Anyone flying out of the UK has a small incentive to return quickly. The departure lounges of leading airports are decorated with large reproductions of notorious 19th century paintings promoting the work of John Singer Sargent, which are on display at the Tate Gallery in London until January 17. They are paid for by Morgan Stanley Dean Witter, the sponsor of the show.

The investment bank is *taking its sponsorship* very seriously. It is not just the money, although its involvement is costing something approaching £1m when all the support activities, such as advertising, are included. It is the fact that this is the first time it has sponsored the arts in a big way, and it is desperate to ensure a success.

Morgan Stanley has been planning an arts sponsorship with military precision since 1995. It drew up a list of 10 objectives, which included raising the company profile, involving the community, stimulating staff, and entertaining clients – and prospective clients – and asked *Sponsorship Consulting to* come up with possible forthcoming events. Not surprisingly a big show at the Tate seemed a better bet than supporting an orchestra on tour or backing a new opera production, but Morgan Stanley had to come up with a generous offer to the Tate to beat off competition.

Morgan Stanley stresses that its investment in community projects linked to the show far exceeds its expenditure on corporate entertainment. Hundreds of children in the borough of Tower Hamlets, near its Canary Wharf headquarters, will be involved in literacy schemes based around Sargent's art.

Whether new business flows from the social events is not built into the follow-up research, nor the impact of the show on a government that is anxious to see companies getting involved in community work. Morgan Stanley has convinced itself that an American bank, with a big UK presence but continental connections, is the ideal sponsor for an artist born in Florence to American parents who settled in England but travelled widely. It is also determined to make its show more successful than that of rival Goldman Sachs, which is backing the Picasso ceramics exhibition at the *Royal Academy*.

After London, Sargent moves to Washington (sponsored by Ford) and to Boston (BostonBank). On its trans-Atlantic crossing it might pass 80 of the late paintings by Monet, coming to the Royal Academy in January from Boston.

At the RA Monet is supported by Ernst & Young, which has become the most consistent and biggest sponsor of the visual arts in the UK. Monet is the most popular Impressionist artist, and in 1990 drew a record 650,000 punters to the RA. Works by the artist are packing out the Boston Museum of Fine Arts in an exhibition sponsored by Fleet Financial, which is reckoned to be one of the biggest US sponsorships, costing up to $4m.

Among the innovative spin-offs, Fleet has created a video which it is distributing *to old people's homes around* Boston, reminding pensioners what Monet was capable of after the age of 60. There is also the inevitable schools programme, which will transport 2,500 students to the museum; and the construction by inner-city teenagers of a mural based on Monet's *Waterlilies* on the wall of one of Fleet's branches.

What pleases the museum most is Fleet's special offer to its 30,000 employees of merchandise acquired from the gift catalogue produced alongside the exhibition: this has boosted sales through the museum shop by $500,000, vital for a museum that finds its own funding.

After Monet at the RA, the big event there, as usual, is the Summer Show. For the first time this will be sponsored by the consultancy and head-hunter A.T. Carney, which has committed about £500,000 to back the show for the next three years.

Antony Thorncroft

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
● *The Rake's Progress: by* Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 7, 10

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
● Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation and building work, a selection of its finest holdings will be exhibited in the Rijksmuseum's South Wing; to Mar 7

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 7

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 6
● Mourning Becomes Electra: by Martin David Levy. New production by Liviu Ciulei, conducted by Richard Buckley; Nov 7

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
● Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations. Many of these objects have never before been publicly exhibited; *to Dec 6*

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
● Joan Miró: big retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from *the artist*'s family since the exhibition was shown in Stockholm over the summer; to Jan 10

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● Tristan und Isolde, by Wagner, in a production by Yannis Kokkos, directed here by Peter Watson and conducted by Richard Armstrong. Cast includes Jeffrey Lawton and Eva-Maria Bundschuh; Nov 7

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
● Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garfoth; Nov 7

LAUSANNE

EXHIBITIONS
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
● *The Collection of Dr* Henri-Auguste Widmer: in 30 years, Widmer collected more than 600 works of art. This display, designed to pay tribute to one of the museum's most generous donors, includes works by Boudin, Daubigny, Chintreuil and Rousseau as well as sculptures and a selection of antiquities; to Nov 8

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: Michael Tilson Thomas conducts a series of works by Stravinsky; *Nov 6, 8*

DANCE
Sadler's Wells
Tel: 44-171-863 8000
● Rambert Dance Company: Cruel Garden, by Lindsay Kemp and Christopher Bruce. Evocation of the life and work of Federico Garcia Lorca, set to music by Carlos Miranda, performed by London Musici; Nov 10, 11, 12

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Boris Godunov: by Mussorgsky. Conducted by Paul Daniel (Noel Davies from Dec 2) in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson (Gidon Saks from Dec 2) sings the title role; Nov 11
● Mary Stuart: by Donizetti. *Conducted by Jean-Yves* Ossonce in a new staging by Gale Edwards, with costumes by Jasper Conran. Ann Murray sings the title role, with Susan Parry as Elizabeth; Nov 7, 10

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Charlotte Salomon: born in Berlin in 1917, Charlotte Salomon died in Auschwitz in 1943, after living in hiding in the south of France for three years, during which time she produced a series of 769 gouaches called Life? Or Theatre?, exhibited here; to Jan 17

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
● L' Elisir d' Amore: by Donizetti. Massimo Zanetti conducts a staging by Ugo Chiti, with designs by Tullio Pericoli. Mariella Devia sings the role of Adina; Nov 6, 8

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
● Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 7, 12

EXHIBITIONS
Haus der Kunst
Tel: 49-89-211270
● Lyonel Feininger (1871-1956): From Gelmeroda to Manhattan. First comprehensive retrospective of the German-American painter, who was forced to leave Germany during the 1930s and subsequently worked in New York; paintings by to Jan 24

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Le Nozze di Figaro: by *Mozart. New staging by Jonathan* Miller, with designs by Peter Davison. With Renée Fleming, Cecilia Bartoli and Bryn Terfel, conducted by James Levine; Nov 7, 11

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Degas Photographs: bringing together 35-40 photographs, most of which were made in the *1890s. Mainly figure studies,* self-portraits and portraits of the artist's circle; to Jan 3

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Tristan und Isolde: by Wagner. Conducted by Donald Runnicles *in a staging directed* by Michael Hampe, designed by Mauro Pagano; Nov 6

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● In Visible Light: Photography and Classification in Art, Science and the Everyday. Traces the evolution of photography from the late 19th century to works by artists inlcuding Andy Warhol and Cindy Sherman; to Nov 15

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
● Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards, and designed by Luisa Spinatelli. The cast is led by Mirella Freni and Placido Domingo; Nov 9

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PHILIP STEPHENS

The great escape

The lesson of the US mid-term elections is that today's politics belongs to conservative liberals and liberal conservatives

Bill Clinton stays. Newt Gingrich goes (maybe) and George W. Bush runs. There you have the headlines from this week's US mid-term elections. Interesting enough. Yet buried in the story of Mr Clinton's latest and greatest escape is another lesson, as pertinent to Europe as to North America. It concerns politics rather than sex. And it untangles the paradox that saw Mr Clinton's triumph most eloquently expressed in Mr Bush's victory in Texas.

Today's politics, we now know, belongs to conservative liberals and liberal conservatives. These are the politicians who have made their peace with the two big upheavals of the post-war era, the social revolution of the 1960s and its economic counterpart in the 1980s. To win elections in the 1990s you have to be as tolerant of hippies as of yuppies. I hate the phrase, but it is called the politics of inclusion. And it has proved as powerful in the hands of Britain's Tony Blair and Germany's Gerhard Schröder as it has for Mr Clinton.

First, though, a word about those headlines. Mr Clinton has been vindicated. The calls for, and predictions of, his resignation lie exposed as adolescent fantasy. The American people have said they don't much like the president's sleazy personal morality, and they are angry that he lied. But they respect Kenneth Starr, the prurient prosecutor in the Monica Lewinsky affair, even less. It is a good call.

Mr Clinton made a mistake and then tried to cover it up. Even his friends are ashamed. Mr Starr has spent $40m of the people's money pursuing a personal vendetta against the man they elected president. It is often said Americans are puritans. In a way that is true. But they also believe in individual liberty. They don't want the government in their bedrooms. So they are repelled by a prosecutor (Mr Starr has forfeited the prefix "independent") who peddles pornography about their president.

No doubt a few Republican zealots on Capitol Hill will remain in denial for a while. You can hear it now. Our $10m television advertising blitz (Mr Gingrich's bright idea) recalling the tale of the president and the White House intern was not a mistake at all. The error was to have spent too little rather than too much. It should have been $100m. And thus we are reminded that ideology is ever blind to the facts.

We must assume, though, that even Mr Gingrich, who has become quite adept at snatching defeat from the jaws of victory, will pause for thought. His position as House Speaker is vulnerable. We know Mr Clinton will still be in the White House when the new Congress assembles in January. We cannot be quite so sure Mr Gingrich will still be in the Speaker's chair. Politics is nothing if not poignant.

Only the day before yesterday the conventional wisdom said that the longer the impeachment process dragged on, the more damage it would inflict on the president. Now, the Republicans, and especially Mr Gingrich, understand they have more to lose from a protracted process. I have met senior White House aides who positively relish the idea of Mr Starr and his co-conspirator Linda Tripp appearing before the House judiciary committee. To my mind, it is time for the Republicans to put the Lewinsky affair behind them. A suitably penitent apology to the American people from Mr Gingrich and Mr Starr might do the trick.

These elections, though, were about more than a definitive confirmation of the people's good sense in the matter of the president's sexual peccadillos. Mr Clinton's victory (you have to go back 150 years to find the party of the White House incumbent picking up seats half-way through a second term) was *political* as well as personal.

It is not just that Gray Davis's win in California secured a Democrat governorship of the most populous state for the first time in 16 years. Nor that the Democrats showed they can win again in the south and, when push comes to shove, can mobilise the African-American vote. Those are important currents. What really counts, though, is that the Democrats have caught the Zeitgeist.

The economy, of course, helped a lot (Mr Clinton owes more than he can ever repay to Alan Greenspan). But there is more to it than contentment. Big government still has a bad name. Active government has a good one. On issues like education, health, gun control, family tax credits and the environment, the Democrats ran with the public mood. Let's not turn back the Reagan revolution, this says, but let's not desert the people either.

Mr Clinton, the conservative liberal, has adopted but then shrewdly adapted the legacy of the 1980s. The Democrat coalition now reaches out well beyond its core union and ethnic minority constituencies to comfortable Middle America. Inclusive politics wins votes.

Mr Bush, the liberal conservative, understands this. His strategy in Texas was to make inroads into the Democrat camp. He campaigned on tax cuts, sure. But also on better schools. Compassionate conservatism, as he calls it, was pitched to Hispanics as well as to his party's traditional, white constituency. Mr Bush eschewed calls for English-only tuition in schools. And though he opposes abortion, he would not outlaw it. It worked. He took 65 per cent of the women's and nearly 50 per cent of the Hispanic vote. His brother Jeb, the new, equally moderate governor of Florida, put it succinctly: "This is a victory of inclusion over exclusion."

It is also the way for Republicans to win back the White House. And logic decrees George W. should be the candidate. But these are realities that the Republican leadership in Congress has yet to grasp. While Mr Clinton embraces liberal economics, his opponents are still fighting the hippies. Strip out the ever-present promise of tax cuts and the Republicans are left with a Christian Coalition agenda that does little more than vilify abortion and gay sex. This is exclusive politics par excellence.

Moral and ethical issues are high on the list of voter concerns. But they reach beyond the narrow, sexual focus of the moral majority. Mr Davis won in California against his opponent's reluctance to operate restrictions on assault rifles or take on the tobacco lobby. Barbara Boxer, who held her Senate seat in the same state, trumpeted her pro-choice stance on abortion in virtually every campaign ad. The hippies may have grown up, but social liberalism lives on.

Republicans have yet come to terms with this potent union of two revolutions. Mr Gingrich's party remains in thrall to its activists. It delights in an unyielding exclusivity. It is extreme rather than mainstream. And that explains why Mr Clinton has had such a good week.

LETTERS TO THE EDITOR

System undermined by short term capital flows

From Professor Dani Rodrik.

Sir, Martin Wolf is right ("Currency vacuum", November 4) that the Group of Seven's silence on exchange rate regimes is jarring – even if understandable in view of the preoccupation with saving the Brazilian fixed rate. He is also right to stress that controlled exchange rate regimes are unlikely to be viable in the absence of some controls on capital flows. But he underestimates the problems with letting currencies float freely.

There is good reason why free floats rarely last for long. The same "market forces" that yield alternating floods and gluts of foreign capital would, under a clean float, tend to create wild gyrations in the level of the exchange rate. While some types of financial panic are less likely to happen under a pure float – those that are driven by a fear that the central bank's reserves will soon be exhausted – sustained misalignments in currency rates can hardly be ruled out.

The result will be a loss of competitiveness of the tradeable sectors or inflationary pressures (depending on whether the exchange rate is over or under-valued) not linked to underlying fundamentals.

Few governments will in practice take the consequences sitting down.

So a float will soon turn into a "managed" float, a possibility that Mr Wolf recognises when he states that "floating rates may also demand foreign currency support in a world crisis". This reintroduces the possibility of discrete changes in currency rates and creates once again incentives for speculators to take large bets on such changes, taking away the main advantage of floating.

Whether based on fixed or floating rates, no exchange rate system will work adequately unless we find ways of reducing the flow of short-term capital around the world.

Dani Rodrik,
Rafiq Hariri professor of international political economy,
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Mass 02138, US

Past crimes outside remit of international criminal court

From Professor Ruth Wedgwood.

Sir, Your leader, "General retreat" (October 29) mistakenly supposes that Chilean General Augusto Pinochet can be tried by the international criminal court approved at Rome this July. But the permanent court will have jurisdiction only over new crimes. Addressing past crimes remains a responsibility of national courts.

The general won round one before the High Court, arguing that his acts of extrajudicial killing, torture, and disappearances, committed against Spanish, Chilean, and even British citizens, were part of "official duties".

In reviewing the decision this week, the House of Lords will appreciate that such heinous and barbarous acts have been placed beyond the pale of "sovereignty" by the entire corpus of international human rights law. These acts are prohibited by *jus cogens*, the peremptory norms of international law binding upon every state and government.

If a former head of state authorised the terrorist bombing of a civilian aircraft, one assumes that it would not be overlooked in an English court.

It would certainly startle most foreign offices to learn that official acts immunity – enjoyed by even the service staff of an embassy – might permit a Jekyll-and-Hyde night life, with impunity for assassinations and abductions.

Nor is the result compelled by international law. As the American Law Institute notes in the 1987 Restatement of Foreign Relations Law (p471), immunity for a former head of state "is not required by international law".

One hopes that the 50th anniversary of the Universal Declaration of Human Rights will be celebrated on December 10 in a way more fitting than the release of General Pinochet.

Ruth Wedgwood,
professor of law,
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senior fellow, Council on Foreign Relations,
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US

Northern Ireland constitutional deal must be accepted as done

From Mr Nick Martin-Clark.

Sir, As always there are hidden depths to the decommissioning issue ("Northern Ireland peace accord deadline missed", October 31-November 1). The recent exchanges between Martin McGuinness and David Trimble indicate that the key difficulty lies in Sinn Féin's continuing ambivalence over the constitutional arrangements of the Good Friday Agreement. Regardless of whether a full peace settlement awaits police reform, among much else, the constitutional deal is now done and dusted.

It is no longer possible for Sinn Féin to argue that the Northern Ireland they have signed up to is an illegal statelet, nor fudge the question of legal and illegal arms. That does not mean that the unionists are entitled to an immediate handover, only that the direction of policy must be clear. It would greatly help if Gerry Adams would concede the obvious point that the referendum north and south constituted the first act of self-determination by the people of Ireland as a whole since 1918.

Nick Martin-Clark,
38b Handsworth Rd,
London N17 6DE

From Mr Thomas Hutchison McFadden.

Sir, No answer to the question "Why won't republicans offer decommissioning now?" could change the facts that the Good Friday Accord required the establishment of the shadow executive by October 31, and no decommissioning is made by that agreement pre-requisite to that establishment.

Why are republicans being asked to do things not required by the Good Friday Accord before Unionists do even what is required therein?

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The Citi two-step

Gloomy markets have cast a pall over the fêted merger of Citicorp and Travelers Group, says Tracy Corrigan

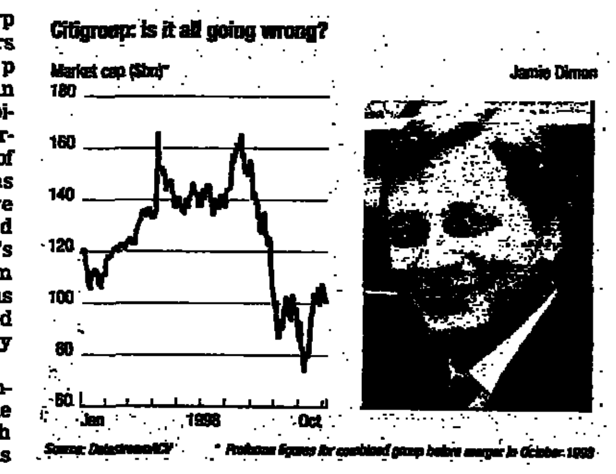
When Citicorp and Travelers Group announced in April one of the most ambitious mergers ever undertaken, the market value of the two companies was $166bn. Now they have merged it is $100bn and Jamie Dimon, Citigroup's president, has just been forced out. Delight has turned to dismay – and brought about a hasty re-arrangement of plans.

Instead of running in tandem the two parts of the companies which deal with big corporate customers – as was originally intended – they will be merged. "We came to the conclusion that we ought to combine and not run them in parallel" says Deryck Maughan, formerly co-head of Travelers' Salomon Smith Barney and now Citigroup vice-chairman in charge of integrating the corporate sides of the business.

This decision, along with Mr Dimon's resignation and a management reshuffle that accompanied it "suggests Citigroup is having continuing difficulty in meshing its wholesale businesses," says Judah Kraushaar, an analyst at Merrill Lynch. Or as Sandy Weill, co-chairman of Citigroup puts it, the corporate side was "just not getting it together".

When the merger was first muted, this was not even supposed to be a critical part of the business. The melding of the corporate banking operation of Citibank with the investment banking business of Salomon Smith Barney, was never the *raison d'etre* for the deal. "From what they were saying from the outset, they were looking for ways to co-operate on the corporate side, but they didn't lay out any great hopes for big improvement," says Raphael Soifer, financial services analyst at Brown Brothers Harriman.

"This merger was driven by the retail side, which is bigger in both companies," he notes. The ambitious target set by co-chairmen John Reed and Sandy Weill of an extra $1bn in earnings in five years was predicated largely on the cross-selling of insurance, banking and other financial products – a novel enterprise in the US, where until recently regulatory barriers prevented such cross-fertilisation.



In fact, say analysts, Citigroup's retail businesses is going great guns. But the cross-selling of retail products is by nature a long-term process, and it is still too early to judge whether the ambitious cross-selling goals set by the merger's designers will be realised.

Nevertheless, the problems on the corporate side, along with apparent turmoil among senior managers, raise a basic question: are the difficulties basically teething troubles, caused by timing and the inevitable difficulty of learning to work together? Or was the project ill-conceived from the start?

The culture clash between investment bankers and commercial bankers is widely recognised as a particularly problematic one

When the merger was announced, a cult following was beginning to surround Sandy Weill, the Brooklyn-born entrepreneur who built Travelers from a shell company into a financial services giant on the back of a series of successful acquisitions. The cult was such that Wall Street was prepared to take the deal on faith. Although some analysts pointed out that Mr Weill's speciality was buying troubled companies on the cheap and cutting costs out of them – a far cry from a merger with the huge and successful Citicorp – Wall Street unanimously gave Mr Weill the benefit of the doubt.

Hence, from the start, the details of the merger were somewhat hazy, especially concerning how it would be implemented. Even if strategists were keeping the details to themselves, Sallie Krawcheck, an analyst at Sanford Bernstein, a Wall Street brokerage, says: "they had plenty of a plan but the best-laid plans can go awry".

A big reason for that is timing. Favourable market conditions prevailed when the merger was conceived; these then dramatically reversed, exposing problems that might otherwise have been dealt with at the group's leisure.

Just as the bull market and strong global economy drove up stock prices of bad companies as well as good, they may also have bailed out problematic mergers, or at least given managers some breathing space to sort out problems. This deal has enjoyed no such grace period. "You much prefer to have a merger in a bull market as Morgan Stanley Dean Witter did," says Ms Krawcheck.

Instead, Salomon Smith Barney recorded a net loss in the third quarter, largely because of a big hit in proprietary trading. Citibank's corporate business was also adversely affected by the market turmoil which followed Russia's default on its domestic debt in August.

The problems at Salomon Smith Barney, itself created by a merger only a year ago, intensified the difficulty of implementing a further traumatic merger involving hundreds of job cuts, just months after Salomon and Smith Barney were integrated. Furthermore, the culture clash between investment bankers and commercial bankers inherent in the Citigroup deal is widely recognised as particularly difficult to resolve.

But in addition to all this, it is clear that the basic plan has had to be changed. The original idea was to allow Citibank and Salomon Brothers to operate in tandem to avoid rocking the boat. This no longer appears viable now that revenues are falling so fast, and the two are being merged. As Deryck Maughan says: "This deal was born in the sunshine, the markets were going up. Now it's raining so we have advanced the timetable."

Should the decision have been made earlier? Mr Maughan argues that "we needed three months to get to know each other. The reality is that is not how deals like this get done. You have a compelling macro vision and then you work out the implementation."

He remains bullish on the potential despite the obvious hiccups. Citigroup has "a truly global client base. There are things that Citi can do that Merrill Lynch can't do and that Chase can't do."

There is still no final verdict on the Citigroup merger. "The jury is still out and the stock is reflecting that," says Ms Krawcheck.

Therein may lie some hope. Both John Reed and Sandy Weill have a long history of caring about earnings and shareholder value. Perhaps the best that can be said is that, at current share prices, Citigroup may give investors an opportunity to do what Mr Weill himself always likes to do best: buy cheap.

مكررا من الاصل

FINANCIAL TIMES

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Friday November 6 1998

The Bank avoids half measures

It might seem puzzling. On Tuesday, the UK Treasury warns that the economy is still suffering from domestic inflationary pressures and needs to slow down. Two days later, the Bank of England cuts interest rates decisively.

In its autumn forecast the Treasury was remarkably optimistic about the prospects for the UK economy, projecting a healthy recovery in 2000, from a shallow trough next year. Despite the global financial crisis in recent months, this forecast was close to that produced by the Bank in its August Inflation Report.

So why cut rates? Did yesterday's ½ percentage point move to 6¾ per cent, following a ¼ point cut last month, imply that the Bank is now much more pessimistic than the Treasury? Not quite. The Treasury's rosy scenario was based on an assumed cut of about 2 percentage point cut in interest rates (in line with forward market rates). The Bank's cut might therefore be seen as only the second instalment of what the markets – and the Treasury – were counting on.

The puzzle is thus resolved, but not, of course, the deeper riddle of how the UK will respond to the cold winds blowing in from the global economy. Since Russia defaulted on its debts on August 17, the International Monetary Fund has lowered its forecast for world economic growth this year to only 2½ per cent, down from 4 per cent in May. And the problems of south-east Asia have created worsening trade prospects for all western economies.

This has been exacerbated for the UK by the continued strength of sterling, despite the 1 per cent decline in its trade-weighted value since April. In the three months to August, the UK's deficit on its trade in goods was £4bn. And as exports weaken, businesses have become more pessimistic than at any time since 1980.

But these gloomy indications must be set against evidence that the economy is still running at close to top speed. Vacancies remain high. Unemployment continues to fall, and the stock market has recovered some of its losses after what seems, so far, only a moderate correction. Unfortunately, confusion over the accuracy of earnings figures has removed a crucial indicator of inflation. But the Treasury thinks that pay increases may still be above sustainable rates.

A great deal hinges, therefore, on precisely how much the UK economy was overheating before the present crisis started to cool it down. The Treasury believes national output is perhaps only ½ per cent above its long term trend line. Other forecasters think the indicator is much further into the danger zone.

But even on Treasury assumptions, a substantial interest rate cut is needed to achieve a recovery after next year's "growth recession". On a more pessimistic view, the case for cuts is even stronger. The Bank was right, therefore, to make a decisive move – the largest since it achieved operational independence in May 1997.

More will probably be needed to pre-empt the dangers of recession. But the risks are two-sided. Recessionary forces may prove weaker, and UK inflation more robust than now expected. If that happened, the Bank should be as decisive in raising rates as it must now be in cutting them.

Closing door

Deng Xiaoping radically changed the direction of China's economic development with his introduction of an "open door" policy, to encourage foreign investment and trade, in 1978. The result was two decades of rapid growth.

But recently, the policy direction has become less clear. There have been a number of changes to China's rules on foreign companies. Examples include the imposition of fixed prices on petrochemical imports, and restrictions on borrowing in renminbi to pay off foreign currency loans. Foreign telecoms companies have been a particular target: earlier this week telecommunications companies were told they should only buy locally produced mobile telephone equipment.

These actions are all a part of China's struggle against a slowdown in growth. The devaluation of Asia's currencies, which left China relatively less competitive, combined with the global economic downturn was a big shock. Exports, previously one of China's main growth engines, fell in September at an annual rate of 6.7 per cent; there is serious concern that the huge trade surplus could be eroded. And the domestic economy is being crippled by overcapacity and lax domestic demand. Attempts to protect local companies from the worst of the crisis are understandable.

The Chinese authorities, though, may be underestimating the cumulative impact of their actions. Foreign investment, which last year reached US$45bn, is vital to China's economy. So far it has held up, an impressive achievement considering the global lack of appetite for risk.

But foreign interest may be more fragile than China's leaders assume. Companies investing in China have to operate within a system riddled with red tape and ambiguous rules. Their security has come not from compliance with rules, but from political connections. Beijing's positive attitude toward foreign investment has not only allowed, but has positively encouraged this.

If the authorities are indeed now tightening up the rules, then the assumptions on which companies have entered China will be undermined. The uncertainty over the terms on which the debts of the troubled international trust and investment companies will be honoured is just one example. If companies can no longer rely on their connections, they may start to question whether the Chinese market is still such a good bet.

After Siemens

How deep is Germany's commitment to a more Anglo-American style of capitalism? The answer, after this week's decision by Siemens to shed a number of businesses, may need some revision.

The slow-moving electronics and electrical engineering conglomerate does, after all, embody many of the more entrenched values of the German system – most notably the predilection for investment in technology on supposedly strategic grounds at the expense of shareholder returns. Yet chief executive Heinrich von Pierer is now justifying a move to shed a seventh of the business, including its loss-making semiconductor interests, by reference to the needs of shareholders.

If this is a genuine retreat from the fortress mentality whereby big German companies have felt the need to be in each and every new technology in the main areas of their business, it is welcome, and not just from the shareholders' perspective. The promotion of national champions in information technology and elsewhere has been very costly for the economies of continental Europe. Meanwhile, the greater sense of urgency that Siemens is bringing to the task of restructuring makes it tempting to conclude that a watershed has been reached in German corporate governance.

Even so, Siemens remains an unwieldy conglomerate with underperforming businesses. Their problems still need to be addressed. And from a broader point of view it remains the case that the German interpretation of shareholder value is scarcely red in tooth and claw. Hurdle rates of return on investment remain low by US standards even at companies that claim to pursue shareholder value. And despite the recent emergence of the odd hostile takeover, there is not yet an active market in corporate control.

Nor is the Anglo-American model perceived in Germany to be necessarily superior. Daimler-Benz, for example, is bringing a German two-tier board structure to its merger with Chrysler.

The changes in German corporate culture should not, then, be exaggerated. And with a new left-of-centre government in power, it remains to be seen whether greater political influence will be brought to bear on the corporate sector. There has been much impressive restructuring in Germany, but the impetus needs to be maintained.

Power struggles over the euro

On the eve of the single currency's launch, a battle royal has erupted at the European Central Bank and the Bundesbank. **Wolfgang Münchau** explains the significance

The single European currency will not start until next year, but Europe's politicians and central bankers are already *engaged in a bitter battle over* interest rates, central bank independence and who will control the euro.

The confrontation started a day after the German election when Oskar Lafontaine, now finance minister and chairman of the Social Democratic Party, publicly called on the Bundesbank, Germany's central bank, to cut interest rates. What appeared a verbal accident at the time quickly turned into a campaign, after Gerhard Schröder, the German chancellor, and several other European leaders echoed the theme at an informal summit meeting in Austria.

With the election of an SPD-led government in Germany, Europe's centre-left is grasping a unique opportunity to take on *Europe's conservative* central bankers. Presiding over 11 out of 15 European Union governments, the centre-left realises that it cannot fulfil its main political objective – cutting unemployment – without the help of lower interest rates. The central bankers respond that European benchmark interest rates – at 3.3 per cent – are already extremely low.

On the day when he was elected chancellor, Mr Schröder predicted that the international financial turmoil would turn out to be worse than most Germans had realised. He is already serving notice that he does not want to be blamed for the forthcoming economic slowdown. He is also skilfully setting up the Bundesbank and the new European Central Bank as *scapegoats.*

The central bankers have since tried to defend their monetary policy and their independence. Wim Duisenberg, president of the ECB, said with characteristic bluntness that politicians were free to say what they liked, but "it would be abnormal if they were listened to".

With the start of economic and monetary union only a few weeks away, the real target of Mr Lafontaine's initiative is the ECB, which will be in charge of monetary policy next year. He says he supports central bank independence, but he wants much closer policy co-ordination between finance ministers and central bankers. European social *democrats such as Mr Lafontaine* are looking enviously at the US where the Clinton administration and Alan Greenspan, chairman of the Federal Reserve, have set an example of how governments and an independent central can work together successfully. The result has been a sustained economic boom and record low levels of unemployment.

Mr Lafontaine's call for lower interest rates has provoked near hysteria in Germany, a country obsessed with price stability, having suffered two bouts of hyperinflation in the first part of this century. The German media have been up in arms over Mr Lafontaine's "assault" on the Bundesbank.

Jacques Delors, former president European Commission, once *famously said: "Not all Germans* believe in God. But they all believe in the Bundesbank." Until now, it has been a taboo in Germany for politicians to criticise the central bank in public.

That background makes it harder to have a measured debate about monetary policy. Mr Schröder came close to committing sacrilege this week when he suggested that it should be normal for politicians and central bankers to have an open debate about interest rates. Many Germans would allow for only one other god besides the Bundesbank at this particular time – the ECB. This religion has no room for Mr Lafontaine, except as devil-incarnate.

Christa Randzio-Plath, chairwoman of the monetary sub*committee of the European Par*liament, says: "The Germans and the Dutch have no experience of a dialogue in monetary policy. Such a debate has never taken place. The situation is so absurd that in Holland a member of central bank council is legally barred from walking into the parliament."

Due to relentless German pressures, the ECB is modelled closely on a German blueprint: obsessed with inflation, jealous of its independence and suspicious of elected politicians. Established by a treaty, the ECB is one of the most independent central banks ever created. Its executives are free of political influence, and they can serve only a single *term. The ECB cannot bail out* defaulting governments. The ECB must pursue price stability to the exclusion of all other economic objectives. It determines both the definition of price stability and the means by which to achieve it. There is no way to get rid of Mr Duisenberg and his colleagues, unless they show sign of gross incompetence or mental incapacity – both easy to observe but difficult to prove.

Today's German leaders are now trying to dismantle the beast that other German politicians created. It will not be easy. The Maastricht treaty, which contains the legal blueprint for the single currency, is firmly on the side of the central bankers. And since Europeans have turned out

> **'In Holland a member of the central bank council is legally barred from walking into the parliament'**

to be relatively law-abiding, Mr Lafontaine would find himself in a weak position except for two lucky breaks. Politicians are in charge of exchange-rate policy, and they appoint the central bankers.

Under the Maastricht treaty, the 15 European governments *must agree unanimously if they* want to set up a formal exchange-rate regime. But they need only a qualified majority to lay down a less drastic "general orientation" for the exchange rate: Euro-speak for the creation of informal exchange-rate target zones.

That is what Mr Lafontaine is after. He wants target zones to prevent excessive currency fluctuation of the world's leading industrial countries, notably the euro, the dollar and the yen. The central bankers oppose them because the obligation to intervene in the foreign exchange markets might interfere with their price stability objective. The US administration also *opposes target zones, but its posi*tion may change in the event of a rapid decline in the dollar.

Mr Lafontaine's second court card is the appointment of the next president of the Bundesbank. Hans Tietmeyer, the incumbent and a close associate of former Chancellor Helmut Kohl, is due to retire next August. The appointment is critical because the German banker at the ECB is likely to carry more weight than anyone else. The surest way to influence policy on the euro is to appoint someone you like as head of the Bundesbank. The search for a replacement is already on.

Under the German Basic Law, the Bundesbank president is appointed on recommendation of the chancellor. But Mr Lafon*taine will have a strong,* if not overriding influence on the nomination. There are several potential candidates, including some loyal SPD lieutenants, such as Edgar Meister, a member of the Bundesbank's directorate, and Ernst Welteke, president of the state central bank in Hesse. Both were former SPD state finance ministers with finely tuned political antennae.

If Mr Lafontaine wanted real change, he could deploy a devastating weapon: the appointing Heiner Flassbeck, his closest economic adviser and currently state-secretary in the finance ministry, as the next Bundesbank chief.

A former chief economist of the DIW economic institute in Berlin, Mr Flassbeck is an economist *with strong neo-Keynesian lean*ings, who in the past has been one of the Bundesbank's fiercest critics. The hostility between Mr Flassbeck and the Bundesbank is both visceral and mutual. If this were to happen, it would transform the battle from one in which a beseiger *(Mr Lafontaine)* is trying to storm the castle from the outside, to one in which he has someone inside the baronial hall working on his behalf.

At this point, Mr Flassbeck is not a real candidate for the job, but it is the thought that counts. Until the nomination is decided, central bankers will be jockeying for position, or at least trying not to offend Mr Lafontaine too much, in public anyway. One *example of disarray in the Bund*esbank came this week, when Hans-Jürgen Krupp, a regional state central bank president, said in a newspaper interview that it was the overriding responsibility of the central bank to support the government, once price stability has been achieved. Not all of his colleagues would put it quite like this.

The dispute is far from over. This row has a different quality from previous disagreements between the government and the Bundesbank – such as last year's dispute over Germany's gold reserves or earlier policy disagreements in which the government usually came out a poor second. Nobody knows whether the European public will support the ECB in the same way as the *German public supported the* Bundesbank. The French or the Italians, for example, may be more concerned about the economic slowdown than about a sudden rebound in inflation.

With European inflation rates converging towards zero, the central bankers are coming under pressure from all corners to cut interest rates below the current European benchmark level of 3.3 per cent. Europe's central bankers have justified their reluctance to cut rates further by blaming the failure of some peripheral European countries to reduce rates to the Franco-German benchmark. Their critics reply that this is using one mistake to explain another.

European governments have been elected recently on a clear *mandate for political change.* They confront an extremely independent central bank that may not respond to their demands. This potentially irreconcilable conflict will not necessarily end by undermining the independence of the ECB. But the arguments have already meant that the bank will not inherit the unquestioned public authority of its model, the Bundesbank. And they could prove unsettling for the new single currency as soon as it is launched on January 1 1999.

OBSERVER

Millennium bugs head for the sun

After a tough election campaign, you could easily forgive American politicians for spending the weekend relaxing. So all credit to the House of Representatives Government Reform and Oversight Committee, which is getting straight back to work today.

The committee chairman is Dan Burton from the conservative farming state of Indiana, where folks like to make sure that tax dollars are wisely spent. The maverick Republican has made a name for himself this year with over-the-top attacks on Bill Clinton over the Lewinsky affair – he once called him a "scumbag".

Today Burton and his 43 committee colleagues are getting stuck into the Y2000 problem, "Lessons to be Learned from State and Local Experiences". Not that any of the representatives are local to the meeting's venue – Honolulu, the capital of Hawaii, where the temperature at the weekend is forecast to touch 85°F.

The representatives are due to start their labours on behalf of the taxpayer at 8am. Could be a long meeting.

Out of puff

Maybe the tobacco lobby in South Africa would have found cultivating potential allies a better way of heading off the country's tough new anti-smoking law than banging on about it being undemocratic and unconstitutional.

Thabo Mbeki, the pipe-smoking president-in-waiting, might have been sympathetic. As might those politicians who took advantage of a five-minute break in the tobacco bill debate to have an illicit puff under a staircase in parliament.

One intriguing question is whether South Africans wealthy *enough to employ maids will be* allowed to smoke in their own homes. The bill bars the weed from places of employment.

Backhand return

A fortnight after receiving Spain's highest sporting honour – and a Pta5m ($35,000) prize – tennis star Arantxa Sánchez Vicario is being chased for 80 times that sum by the Spanish taxman.

When she won the Prince of Asturias prize for sport – in the footsteps of Sebastian Coe, Martina Navratilova and Carl Lewis – she said the dream of her life had been fulfilled. But she may have spoken too soon.

The inspectors, who are not pressing criminal charges, are claiming almost Pta400m for the years between 1989 and 1993, when Spain's youngest-ever tennis champion had set up home in Andorra.

They argue that unless she can prove she was actually living in the mountainous enclave between Spain and France for 183 days a year, she should pay Spanish tax. They recognise, however, that she did pay tax in various places on the $5m she earned from playing in official tournaments during that period.

The government is making life harder for people basing themselves in tax havens, a popular dodge for Spanish tennis players and opera stars.

But education and culture minister Esperanza Aguirre, who *is responsible for sport, was* anxious to avoid any damage to the image of a sportswoman who had brought Spain "many successes".

The tax dispute, she said, was a misunderstanding.

Body shock

It's hard to break a campaign promise within 24 hours of getting elected. But Minnesota governor-elect Jesse Ventura managed that yesterday, and it *looks like it's something the* midwest state's voters might have to get used to.

Ventura, a former professional wrestler, whose moniker in the ring was "The Body", had promised a spectacular descent to the state capitol in St Paul's from a helicopter. Voters might not mind too much that that didn't come off – but they might mind more if his tax refund plans don't materialise.

The shaven-headed radio talk show host and horse breeder – who now wants to be known as "The Mind" – inflicted three falls and a submission on Democrat Hubert Humphrey, son of a former vice-president, and Republican Norm Coleman.

During the campaign, Ventura said $4bn of taxpayers' money was being "held hostage" by the politicians in St Paul's and should be given back.

But now he's saying the money has all been spent. Asked how this affected his handout plans, *he replied simply: "Oh sheesh."*

Abby sees

Abby Cohen, the persistently bullish market strategist from Goldman Sachs, had good news for the brokers and investment managers at this year's annual meeting of the Securities Industry Association in Boca Raton, Florida.

Not only is she still upbeat about the US market. She thinks active managers, who have *underperformed index-trackers* for an embarrassingly long stretch, are about to have their day in the sun after the recent market turmoil left some stocks "notably undervalued".

Cohen's bosses must be crossing their fingers that she's right – and that they might be able to revive Goldman's initial public offering, which was pulled due to the aforesaid market turmoil.

The Financial Times 50 years ago

U.S. Television Expansion

New York, Nov. 5. American television in all its aspects is growing so fast that it is exceeding its own ability either to transmit or receive. On the transmitting side, applications for use of the limited number of channels have come in so fast that the Federal Communications Commission has shut down completely on processing or granting of any further licences "for perhaps six months." The Commission is considering moving into ultra-high frequency ranges where 65 channels are available in contrast to the present 12 in the range from 44 to 216 megacycles.

Canada's Trade Outlook

Ottawa, Nov. 5. Mr. Truman's election to the U.S. Presidency makes the outlook much more hopeful for trade revisions needed by Canada, official circles say. "We want the way eased for our secondary and manufactured goods, not *merely an open door for* Canadian raw materials," a Government trade spokesman declared. He hinted that Canada will press for a reduction of tariffs and a new trade treaty.

FINANCIAL TIMES

FRIDAY NOVEMBER 6 1998

THE LEX COLUMN

Bundesbattle

At one level, the interest rate debate between Germany's politicians and central bankers is harmless enough. Who can be surprised that the new political elite should want to flex its muscles? Odds are it will calm down soon. True, there is a genuine difference of opinion. But inasmuch as the idea is to distance the government from the effects of any downturn, the message has been sent. There is also evidence of a backlash among a German public who trust their Bundesbank more than their politicians.

It is anyway moot whether Germany needs to cut rates. A real interest rate of just over 2 per cent is hardly onerous when healthy growth is still expected next year. Moreover, the likelihood of the Bundesbank cutting rates is in inverse proportion to the political pressure it faces.

Next year the picture may change. The fledgling European Central Bank will not be as robust as the Bundesbank. The stability pact looks sure to be honoured in the breach. At the very least, the yield curve is likely to steepen. But what of the currency? Loose fiscal, tight monetary policy is a recipe for a strong currency. But monetary policy is not tight, nor soon likely to be. And leftist politics married to a new central bank will surely invite investors to attach a risk premium to the euro, no matter its strong fundamentals. This may not be the issue of the day, but it is moving centre stage.

Microsoft

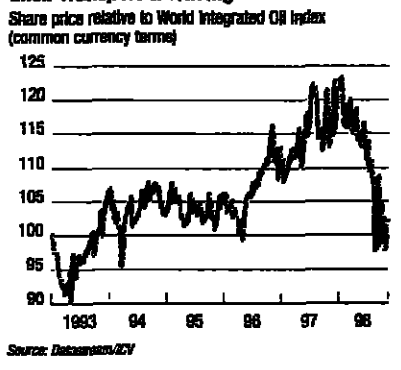
What should Microsoft do with its cash pile? At over $17bn it is one of the largest in corporate America and growing at roughly $2bn a quarter given the software maker's prodigious cash flow.

Ideally, the group should plough this money back into its business since its 40 per cent return on equity far exceeds its cost of equity. However Microsoft is already investing furiously, with R&D spending running at 16 per cent of revenues.

It could step up its share repurchases, currently running at $500m a quarter, though at a price/earnings ratio of 45 times they are hardly cheap. Or it could start paying dividends, though many technology companies baulk at doing so, since investors think it signals slowing growth.

Shell Transport & Trading

Share price relative to World Integrated Oil index (common currency terms)



Source: Datastream/ICV

In any case, none of these remedies would more than dent the cash hoard.

To do that would take a big acquisition. This is the nub of Microsoft's dilemma. It regularly snaps up small companies and there has been speculation that chairman Bill Gates is keen to buy an entertainment company or expand into the processing end of financial services. There are no rules preventing this. But ever since the government undermined Microsoft's 1995 attempt to buy rival software group Intuit, the company has fought shy of making large acquisitions.

While its anti-trust trial remains unresolved, Microsoft may want to keep its powder dry. But in the long run, there is no excuse for running such a flabby balance sheet. If Microsoft cannot deploy its cash elsewhere, it should consider handing back a large chunk – say $10bn – in a one-off payment to shareholders.

UK markets

Half a point off rates and the FTSE 100 Index falls nearly 150 points. Surely something wrong? Not really. The market has just enjoyed a rally of nearly 1,000 points on the back of confidence that the global financial system is not about to implode. But the outlook for corporate profits is still poor – as this week's bad news from the likes of Shell and Marks & Spencer shows. Even without buying gloomy predictions of recession, earnings will be lucky to grow this year or next. Moreover, the UK market – like US and continental European ones – is still expensive.

Where do rates go from here? Probably to as low as 5 per cent. With rates at 6¾ per cent, the Bank of England is still running a moderately tight monetary policy. After all, if the Bank continues to hit its 2½ per cent inflation target, rates should average roughly 5 per cent over the economic cycle, assuming real interest rates of 2½ per cent. But that does not mean they can be slashed quickly since the economy needs to slow a touch. Moreover, sharp cuts now could trigger a further slide in sterling, refuelling concerns about inflation.

There are two ways rates can come down. Either because economic prospects deteriorate – in which case the Bank could cut them rapidly to even below 5 per cent without taking risks on inflation. The alternative, more likely scenario, is that the economy ticks along but at a slow pace. Rates could still eventually fall to 5 per cent but not as fast.

Shell

Shell's third quarter results were never likely to make pretty reading given the September profit warning. But with a 56 per cent fall in earnings – against just 23 per cent at Exxon and 35 per cent at British Petroleum – Shell appalled even jaded pessimists. Returns on capital employed for the year to September have now slumped to just 9.2 per cent, against 12.1 per cent a year ago and the 12-12.5 per cent target for 1998 as a whole.

The challenge will be to milk the crisis to accelerate internal changes. An 88 per cent drop in chemicals earnings – despite $2bn capital investment – and losses in US downstream gas operations indicate the magnitude of the task.

Recent moves to blast away the national baronies that are slowing Shell's responsiveness are a start, as is the 20 per cent manpower reduction in US exploration and production.

But this alone will not rekindle investors' enthusiasm for the stock. Sticking firmly to the target of 15 per cent return on capital employed by 2001, which was set when oil sold for $18 per barrel, would be a well-rewarded display of management grit. Otherwise, with gearing under 20 per cent and Dutch tax laws possibly becoming less unfriendly, a chunky buy-back is in order.

Move to boost investment in emerging economies

US agency extends political risk insurance to bond investors

By Nancy Dunne in Washington and Jeremy Grant in London

A US government-backed agency has joined Japan in attempting to boost investment in emerging economies by providing protection to international bond investors.

The Overseas Private Investment Corporation (Opic), which provides insurance for private investment overseas, said it would extend its political risk insurance to investors in bonds issued to finance projects in emerging economies.

Earlier this week, Japan said it would co-operate with the World Bank and Asian Development Bank by providing guarantees for bonds issued by governments of troubled countries in Asia.

The moves are seen by economists as part of the efforts by the Group of Seven industrialised nations to protect well-run emerging market economies from potential financial crises.

Opic hopes that by offering political insurance, it will encourage international investors back into bond financing. Before the Asian financial crisis, this was one of the most popular ways for emerging countries to finance projects such as gas pipelines and power stations.

Bonds generally offer more flexible terms than financing backed by the more traditional export credit and multilateral agencies. They also provide borrowers with loans of longer maturities and are thus more attractive for economic planners.

However, investor appetite for such bonds has been poor in the wake of global financial turmoil and many projects crucial to stimulating economic growth have had to be abandoned.

"Because the bumps in the road in the global economy have made investors skittish, bonds are increasingly the only vehicle for project investment," said an Opic spokesman. "But there has been a lot of hesitation because of the political uncertainties. It is these we are trying to address."

Coverage of these capital markets transactions will follow Opic's standard political risk insurance options: political violence, expropriation and currency inconvertibility. The cost of the insurance would vary according to the country, project and life of the borrowing. The insurance does not address commercial risk of projects, which must continue to be borne by the private sector.

Opic said it was already working on new projects that might need such coverage, including offshore oil development in Africa, a small business project in Turkey and a gas-processing project in Venezuela.

Kent Rowey, head of project finance at Freshfields lawyers in London, said the Opic coverage would probably not help in countries where it was still unclear whether sound economic recovery was on the way – such as Indonesia.

"But in emerging countries where the crisis is not so severe – Thailand, the Philippines and in Latin America – I think it's going to be quite helpful," he said.

Capital markets, Page 32

Western banks reduce yen deposit rates to below zero

By Gillian Tett in Tokyo and Edward Luce in London

Leading western banks have cut their yen deposit rates to below zero in the last few days in the strongest indication so far of growing anxiety about the solvency of their Japanese counterparts.

The three-month London Interbank Offered Rate – the rate at which banks lend to each other – remained positive for Japanese yen yesterday at 39 basis points (0.39 percentage points), although this was the lowest level yet recorded.

However, some banks, such as J P Morgan and Barclays Capital would only accept yen deposits at negative nominal rates of interest.

Bankers said that this reflected the fact that depositors, including other Japanese banks, were unwilling to place their money with Japanese banks owing to fears about their declining creditworthiness.

Depositors were willing to accept the sub-zero interest rates on offer owing to the lack of other destinations for their yen assets.

All the alternatives – the Japanese stock market, Japanese government bonds or deposits with Japanese banks – were either too low-yielding or too risky, said bankers.

At the same time, western banks have little demand for yen assets and are consequently offering punitively low and even negative rates. "The fact that people are willing to accept negative interest rates in yen is an alarming reflection on the state of the Japanese economy," said a banker in London.

The swing is thought to represent one of the first times that any international market has recorded negative interest rates in recent history.

According to the British Bankers Association, which calculates Libor on a daily basis, Barclays Capital has offered rates of minus 3 basis points for two to three month lending this week, while J P Morgan has offered rates as low as minus six basis points on yen deposits.

Traders report that these "open" rates may be overstating the situation, since even lower rates have been privately agreed between some Japanese and European banks in recent days.

The slump in yen deposit rates also reflects the growing problems faced by Japanese banks and companies in raising dollars in overseas markets, ahead of the end of the calendar year.

In particular, some Japanese banks are now so desperate to raise dollar funds that they are agreeing to swap yen for dollars at increasingly disadvantageous rate.

Another sign of the swing has occurred in the Tokyo-based market for yen treasury bills, government-backed short term securities. On Wednesday the yield on the six-month bill briefly dipped to 0 per cent although it rebounded slightly yesterday to close at 1.5 basis points, a historic low.

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Illegal immigrants queue at a police station in Milan. They were among tens of thousands throughout Italy hoping to receive one of 38,000 residence permits made available under a new law. Page 2

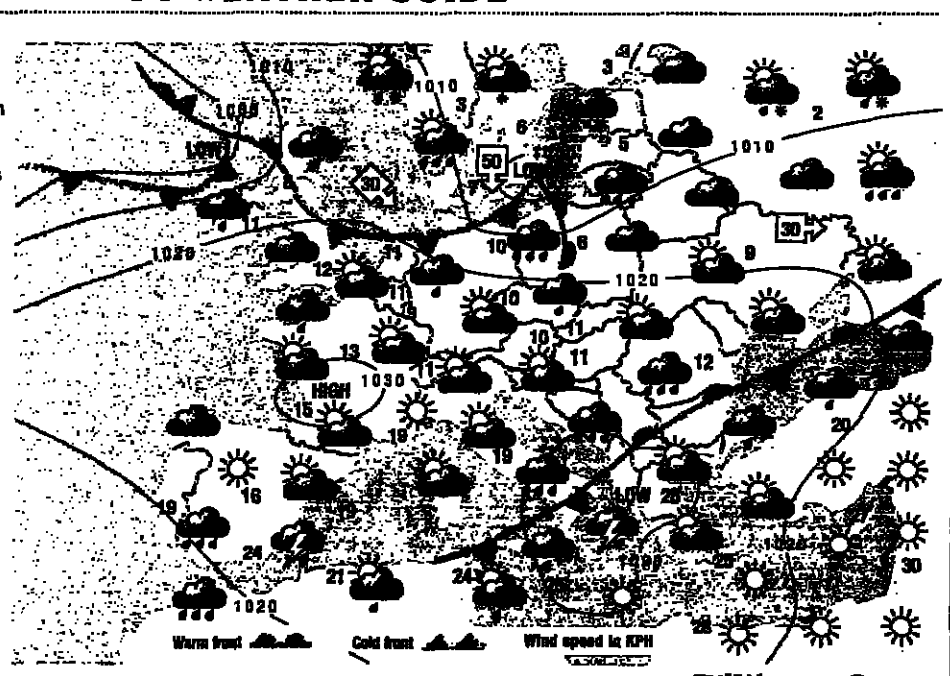
FT WEATHER GUIDE

Europe today

North and central Scandinavia will have sleet and snow showers which will be heavy and prolonged in places. Southern Scandinavia will have heavy rain. The Low Countries will be cloudy with rain. Germany, Austria, Switzerland and France will be dry with sunny spells. Southern Spain, the Costa del Sol and Costa Blanca will be cloudy with heavy showers. The rest of Spain and Portugal will be dry with sunny spells. Southern and central Italy will have rain which will be heavy with thundery downpours in places. The eastern Mediterranean will be dry with sunny spells.

Five-day forecast

Heavy showers in the Mediterranean will move east over the weekend then clear. The western Mediterranean will be fine but rain will move in next week. North and central Europe will see spells of rain moving in from the Atlantic.



Situation at midday. Temperatures maximum for day. Forecasts by 'PA' WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	30
Accra	Fair	32
Algiers	Shower	21
Amsterdam	Shower	11
Athens	Fair	26
Atlanta	Sun	14
B. Aires	Shower	24
B.ham	Cloudy	11
Bangkok	Fair	32
Barcelona	Fair	17
Beijing	Fair	13
Belfast	Cloudy	9
Belgrade	Shower	12
Berlin	Rain	10
Bermuda	Shower	27
Bogota	Cloudy	20
Bombay	Fair	34
Brussels	Fair	11
Budapest	Sun	11
C.hagen	Shower	7
Cairo	Sun	28
Caracas	Fair	31
Cardiff	Cloudy	12
Casablanca	Sun	25
Chicago	Fair	5
Cologne	Shower	11
Dakar	Sun	33
Dallas	Cloudy	16
Delhi	Fair	30
Dubai	Sun	32
Dublin	Shower	11
Dubrovnik	Rain	19
Edinburgh	Shower	9
Faro	Fair	22
Frankfurt	Shower	10
Geneva	Fair	11
Gibraltar	Shower	20
Glasgow	Rain	8
Hamburg	Shower	10
Helsinki	Sleet	3
Hong Kong	Fair	28
Honolulu	Fair	30
Istanbul	Shower	20
Jakarta	Fair	32
Jersey	Cloudy	14
Jo'burg	Shower	22
Karachi	Sun	35
Kuwait	Sun	33
L. Angeles	Sun	20
Las Palmas	Fair	28
Lima	Sun	22
Lisbon	Fair	19
London	Fair	12
Lux.bourg	Fair	9
Lyon	Fair	12
Madeira	Fair	24
Madrid	Sun	16
Majorca	Fair	18
Malta	Shower	25
Manchester	Cloudy	11
Manila	Shower	30
Melbourne	Fair	25
Mexico City	Sun	22
Miami	Fair	28
Milan	Fair	18
Montreal	Cloudy	4
Moscow	Sleet	2
Munich	Fair	12
Nairobi	Fair	27
Naples	Rain	22
Nassau	Shower	28
New York	Fair	8
Nice	Sun	19
Nicosia	Sun	27
Oslo	Sleet	3
Paris	Fair	13
Perth	Shower	20
Prague	Fair	11
Rangoon	Fair	34
Reykjavik	Fair	-2
Rio	Shower	27
Rome	Rain	19
S. Frsco	Fair	16
Seoul	Fair	17
Singapore	Shower	30
Stockholm	Fair	8
Strasbourg	Fair	11
Sydney	Shower	23
Tangier	Fair	24
Tel Aviv	Sun	30
Tokyo	Fair	19
Toronto	Shower	4
Vancouver	Shower	9
Venice	Sun	16
Vienna	Fair	10
Warsaw	Cloudy	8
Washington	Sun	9
Wellington	Fair	17
Winnipeg	Fair	1
Zurich	Fair	10

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Hurricane Mitch survivors count cost

In Central America, the rains in the wake of Hurricane Mitch have left coffee plantations inaccessible, shrimp farms buried under mud and fruit ruined. Those crops that have survived cannot be transported to market because of the damaged and flooded roads. In Honduras, the authorities are assessing tentatively the value of lost agricultural production at $200m in 1998, rising to more than $500m in 1999. **Page 34**

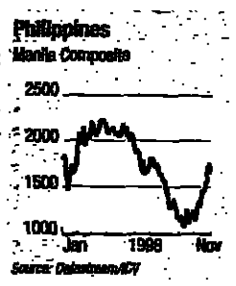
Ina spins off property arm

Ina, the Italian insurer, listed the shares in newly spun-off property arm Unione Immobiliare in Milan this week, creating the largest listed property company in Italy. The spin-off could bring about a transformation in the way property is owned and managed in Italy and may have caught the eye of other European composite insurers. **Property column, Page 29**

Canadian markets tackle decline

Canada's stock exchanges, which have seen a steady erosion of liquidity and the migration of some top companies to US listings, are acting to reverse that decline. The Toronto stock exchange is the third largest in North America but critics say it has failed to keep pace with changing global capital markets and the demands of institutional investors. **Page 26**

Manila thrills regional investors



Over the last two months the Philippine stock market has turned in one of the region's best performances. After hitting a low of 1,082 in September, the PSE 30 index has risen 66 per cent to 1,761. Analysts say the rally has partly been driven by the improvement in regional confidence and currencies but local factors are at least as significant. **Page 44**

Sparks fly over Pakistani electricity

A clash between the Pakistani government and Hub Power Company, the Karachi power generator, has intensified investors' anxieties about the country. The government has reduced Hubco's electricity tariff, claiming it was increased in 1994 by Benazir Bhutto's administration in return for pay-offs. **Page 24**

Brussels lifts farm spending forecast

Falling farm prices have led the European Commission to increase the 1999 spending forecast for the common agricultural policy by more than Ecu500m ($588m). **Page 34**

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MARKET STATISTICS

Weill defends progress of Citigroup tie-up

Co-head admits failings in corporate sides of merged businesses

By Tracy Corrigan in Boca Raton

Sandy Weill, co-head of Citigroup, the financial services giant formed by the merger of Citicorp and Travelers Group, conceded yesterday that the corporate sides of the merged businesses were "just not getting it together", prior to Sunday's management reshuffle.

But he defended the group's overall progress, noting "we have been together less than one month".

Mr Weill was speaking publicly on the issue for the first time since the surprise resignation of Jamie Dimon, president of Citigroup and Mr Weill's longtime protégé, which caused Citigroup's stock to fall on fears that the implementation of the merger had run into problems.

Mr Dimon ran Salomon Smith Barney, the investment banking and brokerage unit of Travelers, in conjunction with Deryck Maughan. Mr Dimon, Mr Maughan and Citibank's Victor Menezes had been given the task of bringing together Citibank's corporate banking business and Salomon Smith Barney.

Mr Dimon left the company, despite being recently appointed president, because "it didn't work," said Mr Weill, answering press questions after a speech at the Securities Industry Association's annual meeting in Boca Raton, Florida. He said he believed the parting to be in the best interests of Mr Dimon and the company. "The consumer side has come together really smoothly. It is the biggest money-earning part of our business," said Mr Weill. But he said that while there was a blending of cultures on the retail side of the business, "unfortunately that wasn't happening in the consolidation of Citi's global relationship bank with Salomon Smith Barney."

However, he said that the new management team – Mr Menezes and Mike Carpenter, a Travelers executive who once ran Kidder Peabody – "will be able to put them together in some of the emerging markets around the world, where they should be together". The exact details of the worldwide meshing of the two sides will be decided in the next few weeks but is expected to result in a closer integration than originally foreseen.

He said that dissatisfaction about the execution of the merger on the corporate side emerged at a meeting of senior executives two weeks ago. The message from eight focus groups, Mr Weill said, was that there was a need to get rid of bureaucracy and give authority to staff in the field, and to put the corporate banking operations together. He also said that executives felt that it was necessary to focus on a small number of possible opportunities for expanding the business.

He added that recent market turmoil had "validated" the reasons for the merger. One reason for approaching Citicorp was his belief that "we needed a much stronger equity capital base so that next time [a market dislocation] happens it would be an opportunity not a catastrophe," he said.

Stirred but not shaken: HypoVereinsbank says executives Eberhard Martini (left) and Albrecht Schmidt regret their 'public disagreement'

HypoVereinsbank chiefs end dispute

By Tony Barber in Frankfurt

A public dispute between two top executives at Germany's second biggest bank ended yesterday when Albrecht Schmidt, chief executive of Bayerische HypoVereinsbank, and Eberhard Martini, a member of its supervisory board, settled a quarrel over property deals.

HypoVereinsbank, formed from the merger this year of Hypo-Bank and Vereinsbank, both of Munich, said Mr Schmidt and Mr Martini regretted the quarrel over the property deals, which caused the bank last week to announce an unexpected DM3.5bn ($2.1bn) in risk provisions. It said they would work together to make a success of the new bank.

The dispute erupted when Mr Schmidt, the former Vereinsbank chairman, accused former Hypo-Bank officials of having overvalued real estate projects, mainly in eastern Germany. He said he was "deeply shocked at mistakes of this magnitude" and promised that heads would roll.

Mr Martini, former Hypo-Bank chairman, reacted angrily to Mr Schmidt's charges, which he said had "dragged my professional existence through the mud". He also described Mr Schmidt as unfit to run a bank.

Yesterday's statement did not make clear whether HypoVereinsbank intended to revise its risk provisions, or whether Mr Schmidt was retreating from his promise to force resignations from the bank's management board.

The statement said only that Mr Schmidt and Mr Martini had met for "a long and good chat" and that both believed Hypo-Bank's merger with Vereinsbank had been the right decision. "Both reacted emotionally in connection with valuation differences. They regret the public disagreement and firmly want the two banks to grow together."

However, the bank appeared to face problems from another quarter after prosecutors in the northern city of Düsseldorf disclosed that they had been investigating Hypo-Bank since early 1997 in connection with alleged property fraud.

Hypo-Bank had financed the purchase of about 100,000 properties, which were later sold at prices alleged by some real estate investors to be overvalued, the prosecutors' office said.

The investigation centred on complaints from investors about a property company called AFR, which had business links with Hypo-Bank.

It was unclear to what extent this investigation was linked to the dispute between Mr Schmidt and Mr Martini.

Shell's shares drop on 56% profits tumble

By Robert Corzine in London

Royal Dutch/Shell, the Anglo-Dutch oil group, yesterday reported a 56 per cent collapse in third-quarter net profits to $841m, in a "disappointing" performance that was far worse than analysts' forecasts.

Shares in Shell Transport and Trading, the London-listed arm of the group, fell 5 per cent to close down 21½p at 354½p.

Analysts that had downgraded earnings' forecasts in September after a profits' warning said they were "shocked" at the scale of the damage that was inflicted by a combination of factors, including the steep drop in crude oil and petrochemical prices, the Asian recession and the prospect of a slowdown in the global economy.

Mark Moody-Stuart, the chairman of Shell's collegiate committee of managing directors, admitted that "it was not easy to look positively" on the results. But he said Shell would disclose in December some steps to improve performance, including possible disposals and other changes to the company's asset line-up.

"We have to move faster and take action in areas where we've been content in the past to merely modify or incrementally" deal with problems, he said.

Mr Moody-Stuart promised a "dispassionate and fundamental" review of Shell's sweeping asset base, and said new projects would have to qualify as "special opportunities" to secure funding.

He also vowed that Shell would use the poor results as a catalyst for further change in the group's traditional, consensus-driven culture.

The integrated oil sector has been hit hard by falling demand in Asia and oil prices a third below last year's level. But analysts said Shell's quarterly performance showed it had slipped even further behind Exxon of the US.

Chemicals was the hardest hit segment, with an 85 per cent slump in net profits to $27m in spite of several years of restructuring in the division. Mr Moody-Stuart said key elements of that restructuring, such as the Montell joint venture in Italy, "still need looking at". Some chemical businesses will be sold.

Exploration and production profits fell 69 per cent to $288m, as low crude prices were compounded by a 1 per cent fall in oil volumes and a 4 per cent decline in natural gas sales.

The downstream oil products business suffered least, with a 6 per cent fall in net profits to $489m, as "severely depressed" refining margins and lower volumes in Asia were "more than offset" by higher marketing earnings in Europe and Latin America.

Gearing, at 19.6 per cent, remains low in spite of the poor performance and a 2 per cent rise in capital spending to $3.46bn.

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Hyundai's takeover of Kia gets green light from banks

By John Burton in Seoul

Creditor banks for Kia yesterday unanimously approved Hyundai's takeover of the troubled South Korean vehicle group in spite of its demand for large debt write-offs.

Hyundai, Korea's largest carmaker, won an international auction last month for Kia in competition with Ford Motor of the US and the Korean carmakers Daewoo and Samsung.

The banks persuaded Hyundai to lower its demand for the write-off of principal debt from Won7,300bn ($5.6bn) to Won7,170bn. Hyundai will repay Kia's remaining principal debt of Won1,900bn by 2008 in addition to its purchase price of Won1,200bn.

Creditors estimated Kia's total debt at Won13,900bn, including interest payments, much of which will be forgiven.

The banks agreed that Hyundai could renegotiate the debt write-off if it discovers that Kia's debts exceed by more than 10 per cent the stated amount once an asset evaluation is completed by November 17.

Hyundai is also demanding soft loans of Won3,100bn to help finance the purchase. The government has opposed the demand as it could violate Korea's promise not to subsidise ailing industries under its International Monetary Fund rescue programme.

Creditor banks had initially threatened to block the deal because they opposed Hyundai's debt write-off demand, but the government threatened to liquidate Kia if they did not approve the auction.

The acquisition will increase Hyundai's dominance of the Korean car industry, with an annual production capacity of 2.5m vehicles, and make it the world's 10th biggest carmaker.

However, the move will increase Hyundai's debt burden, which stood at 2.5 times equity last year. Analysts are concerned that Hyundai will also be left with excess production capacity.

Chase to expand in Europe on prospect of LBO surge

By George Graham in London

Chase Manhattan, the US bank, the largest provider of finance to leveraged buy-out firms, is to expand in Europe in the expectation of a surge in the developing LBO market.

Chase has moved Thomas Walker, one of the top bankers in its high-yield debt division in New York, to London to head its acquisition finance unit, and is to move more people to its European high-yield group. Mr Walker will be responsible for providing financing and advice to LBO firms in Europe.

In spite of upheavals in financial markets over the past three months, bankers say the leveraged finance market has not dried up. Corporate restructurings such as the shake-up announced by Siemens are expected to fuel the flow of leveraged buy-outs.

The high-yield bond market is only beginning to thaw out after this summer's freeze, and investors are starting to be more conservative in the percentage of debt financing they are willing to accept. Bankers say money is available for LBOs but at a higher price and on stricter conditions than six months ago.

James Lee, vice-chairman in charge of Chase's investment banking operations, said many of the trends that swept the US in the 1980s were starting to make themselves felt in Europe. As shareholder pressure increased on managements, more companies would be restructuring, spinning off subsidiaries and buying back their shares.

"I have had this vision of a global leveraged finance business for some years now. Earlier this year, with the approach of the euro, I felt it could be starting to become reality," Mr Lee said.

Chase has about 23 per cent of the LBO market, so its expansion in Europe is expected to make waves.

Many large US LBO firms, such as Carlyle, Kohlberg Kravis Roberts, Blackstone and Hicks, Muse, have started to do deals in Europe, and previously closed national markets are starting to open up.

RESTRUCTURING ANALYSTS SAY THE GROUP APPEARS TO HAVE WEAK LINKS DESPITE SPINNING OFF BUSINESSES WITH SALES OF DM17bn

New lean Siemens may still need toning up

By Graham Bowley in Frankfurt

Siemens' decision this week to spin off one-seventh of its vast industrial empire leaves behind a varied portfolio of businesses in mixed states of health. Now that semiconductors are to be floated, the new Siemens will centre on four divisions: information and communications, industry, rail systems and power generation.

While its industrial activities – which have already been restructured and include technologies such as automation – are prospering, the jury is still out on other areas. The principal concern is that they operate in mature markets offering scant potential for explosive growth. "There are a couple of divisions that are in real trouble," said Frank Rothauge, analyst at Sal Oppenheim in Frankfurt.

Rail systems is Siemens' weakest link, and Heinrich von Pierer, group chief executive, would probably like to sell it. His problem is that the present state of the unit means he is unlikely to find a buyer, while any merger with the two other big groups in the field – Adtranz and Alstom – is ruled out because of anti-competition concerns.

The division, which made a loss last year of DM800m ($479m), has been hit hard by over-capacity and falling prices, which have made contracts unprofitable. Siemens has responded by installing a new management team.

"They want to restructure the business and then, possibly one and a half years down the road, look for someone interested in buying it," said Jochen Klusmann, analyst at Julius Baer in Frankfurt.

Information and communications is Siemens' biggest division. It was shaken up earlier this year to combine activities such as mobile phones, telecommunication networks and the former Siemens Nixdorf computer business.

Yet while it has a strong position in the traditional telecoms switching market, it lags behind in state-of-the-art internet-based network technologies.

This is where an acquisition will come soon, Mr von Pierer promised. He named no names, but he gave an indication of where a probable target might be located: "The real music is not playing in Europe. It is in the US, in particular Silicon Valley."

Analysts, however, are not ruling out bigger acquisitions later on, with 3Com of the US or Canada's Newbridge Networks seen as possible candidates.

Mobile telephones and personal computers are other problem areas. Both have been hit by declining prices, and Siemens tried to hive off PC manufacturing by selling it to Taiwan's Acer earlier this year, but the deal collapsed. Siemens says it is seeking a partner in both areas, possibly for a merger – Fujitsu, of Japan, is linked with its PC business.

Siemens lacks critical mass, so either it gets out or finds a partner. To compete it has to spend a lot of money, and it is unclear whether it is prepared to do this," said Mr Klusmann.

Equally unclear are the prospects for Siemens' power plant business. It ran into quality problems and it is the division most likely to be hit by the slowdown in Asia.

On a brighter note, the division was recently strengthened by the acquisition of Westinghouse, of the US. This acquisition will incur about DM900m of integration costs, but the division is well placed to exploit strong demand in the US. "We are in the middle of a gas turbine boom in the US," Mr von Pierer said.

Yet while the Siemens chief admitted there would be some more minor changes to his portfolio, none would match the large-scale pruning unveiled this week. "That will be it," he insisted.

The poor health of some parts of his remaining empire, however, suggests otherwise. Heinz-Joachim Neubürger, Siemens' new shareholder-friendly financial officer, and increasingly the real power behind the scenes, may also disagree.

Fresh boost for interferon drugs

By David Pilling, Pharmaceuticals Correspondent

The battle for the lucrative market for multiple sclerosis drugs will hot up today with publication of two papers in the Lancet, the UK medical journal, demonstrating that interferon-alpha is an effective treatment.

Ares-Serono will use results of its trial to suggest that Rebif, its interferon-alpha drug launched in Europe in May, is more effective than rival products in slowing progress of MS. No drug can reverse the disease.

The $800m interferon market is led by Biogen, a US biotech company, whose drug Avonex, launched in 1996, has overtaken sales of Betaseron, the first product on the market, which is manufactured by Schering of Germany.

Ares-Serono says results of the trial will boost sales of Rebif, which is formulated for higher doses than its rivals. Rebif will not cost more than other interferons, even at higher doses, and "gives more bang for your buck", according to Samir Shah, marketing vice-president. However, it is licensed only in Canada and Mexico. The drug has been licensed in Europe for lower doses, but does not yet have US regulatory approval.

All three market participants hope the new data will convince doctors to prescribe interferons more readily. A separate Lancet paper will show that interferons also appear to have a beneficial effect on the more serious "secondary-progressive" stage of MS.

Richard Hughes, professor of neurology at Guy's Hospital in London, said the new evidence had banished his scepticism about the benefits of interferons.

Of the 1.1m MS sufferers worldwide, only about 80,000 receive treatment. Ares-Serono said the market could more than double to $2bn.

Biogen, whose only marketed product is Avonex, denied that Rebif posed a threat to its position. It said its drug, which like Rebif was grown from Chinese hamster cells, could also be formulated for higher doses. It said Ares-Serono's claims about dosing were a "red herring".

SAS shrugs off competition

By Tim Burt in Stockholm

Scandinavian Airlines System yesterday announced a 4 per cent increase in underlying profits in spite of intensifying competition and the impact of labour and air-traffic control disruption in the Nordic region.

The airline – 50 per cent owned by the governments of Sweden, Norway and Denmark – said strong growth in domestic traffic and steady demand among full-fare passengers helped lift operating profits from SKr3.12bn to SKr3.26bn ($415m) in the nine months to September 30.

Turnover rose from SKr28.7bn to SKr30.1bn.

Although profits dipped 11 per cent to SKr1.05bn in the third quarter, SAS predicted that rising demand in the fourth quarter and synergy benefits from its membership of the Star alliance would help lift full-year profits by 15-20 per cent.

The relatively optimistic outlook contrasted sharply with worse-than-expected third-quarter figures this week from KLM of the Netherlands and a cautious statement yesterday from British Airways on traffic yields.


Steady climb: profits edged up 4% at underlying level

Nevertheless, Jan Stenberg, SAS chief executive, expressed dissatisfaction at SAS's rising operating expenses and warned of further restructuring.

"It has become clear that the ambition to reduce unit costs in 1998 will not be realised," he added. "Although extraordinary circumstances and non-recurring costs are partly to blame, the underlying cost development has been too high and will require additional measures."

At the pre-tax level, however, the effects of aircraft sales helped lift nine-month profits from SKr1.75bn to SKr2.47bn, including one-off gains of SKr837m following the sale and leaseback of 20 short-haul jets.

The figures were also enhanced by historically low oil prices, contributing to fuel costs some 9 per cent below last year's levels.

Industry analysts said a shift towards lower-yield discount passengers at SAS – which has traditionally had a bias towards full-fare traffic – was worrying.

Shares in the company, quoted separately in Sweden, Norway and Denmark, lost ground in all three markets. They closed down DKr4.29 at DKr75.50 in Copenhagen, shed SKr2.50 to SKr83 in Stockholm and fell NKr6 to NKr71 in Oslo.

Portugal to merge state energy groups

By Peter Wise in Lisbon

Portugal is to merge three of the country's biggest state-controlled energy groups into a large oil and gas operator worth about $4bn, and sell a majority stake in a global offering within two years.

Joaquim Pina Moura, economy minister, said the new group would bring together Petrogal, the national oil company, Gás de Portugal, a gas distributor, and Transgas, Portugal's natural gas utility.

A strategic foreign partner is expected to be made a shareholder of the new operator before an initial public offering before the end of 2000 that will reduce the state holding in the group to a minority.

"This is a concentration aimed at liberalising the oil and gas sector rather than asserting state control," Mr Pina Moura said. The new company would have the dimension needed to compete in the Iberian market with big Spanish groups, he said.

Analysts said the oil and gas operator would be Portugal's third biggest listed company, behind Electricidade de Portugal, the national power utility, and Portugal Telecom. They estimate the joint value of the three companies, none of which is listed, at $3.5bn-$4bn.

The companies are to be valued separately by Credit Suisse First Boston, appointed by the government, and Merrill Lynch, named by Petrocontrol, a group of Portuguese investors which owns 45 per cent of Petrogal.

The state owns 55 per cent of Petrogal and more than 90 per cent of the other two companies.

Petrocontrol's stake in the new group, which is expected to be created by early next year, is to be determined on the basis of the valuation. Analysts estimate Petrocontrol's holding will be about 25 per cent.

Mr Pina Moura said that guaranteeing the new group secure energy supplies would be an important consideration in the choice of a strategic partner. Portugal depends on imports for 90 per cent of the energy it consumes.

Petrogal's previous negotiations on potential partnerships – first with Total, the French oil company, and later with Saudi Aramco, the Saudi oil group – both failed to produce an agreement.

NEWS DIGEST

STEEL

Usinor withdraws offer to buy remaining J&L shares

Usinor, the French steelmaker, said yesterday it had decided to withdraw its offer to buy the remaining shares of J&L Specialty Steel, its 53.5 per cent-owned US stainless steel subsidiary, and terminated its previously announced merger agreement. This followed an announcement by the special committee of the J&L board, which represents minority shareholders, that it was withdrawing its recommendation that shareholders accept Usinor's proposed offer in the light of unspecified "additional information" provided by the French company.

J&L said yesterday the special committee was reviewing the new information and it was "hoping to hear something in the next day or so". "It could go either way, but there is a sense of urgency," it said.

Usinor, which has decided to focus on its flat carbon steel and stainless activities, is offering $6.25 a share for the 46.5 per cent of J&L it does not already own. It appeared yesterday to be holding the door open for a resolution, having told the committee it would be ready to go through with the deal if, following its review, the body were prepared "today" to recommend it on the same terms and conditions as those set out in the merger agreement.
David Owen, Paris

FINLAND

Margarine fears damp Raisio

Shares in Raisio, the Finnish manufacturer of the anti-cholesterol margarine Benecol, fell sharply again yesterday on growing fears among investors that regulators will block the product's imminent US launch. The shares shed FM3.20, or 5.6 per cent, to close at FM53.70 as officials *from Johnson & Johnson, the US group which owns the* rights to distribute Benecol outside Finland, held talks with the US Food and Drug Administration.

Raisio shares have fallen 26 per cent since the FDA's refusal a week ago to endorse Benecol as a dietary supplement. The FDA argues Benecol is a food under US law and has threatened action if J&J attempts to sell it as a dietary aid. New foods, unlike dietary supplements, must receive formal FDA approval prior to launch – a process which normally takes at least six months. Such a delay would be a blow to Raisio, which has been preparing for Benecol to make its US debut this week in Portland, Oregon, followed by a nationwide roll-out in January.
Greg McIvor, Stockholm

CONSTRUCTION

Building boom lifts Skanska

Skanska, Scandinavia's largest construction company, said yesterday that buoyant US building activity and increased order bookings had underpinned a near-doubling of operating profits in the first nine months. Operating profits rose from SKr1.91bn to SKr3.97bn ($505m) in the period to September 30, on sales ahead from SKr37.2bn to SKr47.2bn. Claes Björk, chief executive, said the improvement justified Skanska's decision to focus on construction-related services and project development. He also highlighted a 39 per cent jump in order bookings, particularly in the US, Finland and Denmark.

At the pre-tax level, however, profits fell from SKr11bn to SKr4.23bn. But those figures were distorted by a SKr9bn exceptional gain last year on share disposals. The 1998 nine-month figures were enhanced by SKr1.09bn from the sale in June of Skanska's forest and timberland assets.

At the operating level, the sharpest growth was seen in the project development and real estate division, where profits jumped from SKr553m to SKr1.45bn. The US division, by comparison, reported profits up from SKr138m to SKr254m and in Europe – excluding Sweden – from SKr143m to SKr194m. **Tim Burt, Stockholm**

Endesa absorbs affiliate groups in $2.4bn deal

By Tom Burns in Madrid

Endesa is to take full control of its listed domestic affiliates through a capital increase and merger transaction worth Pta341bn ($2.4bn), a move that prepares Spain's dominant power group for the planned full deregulation of the domestic electricity sector.

The parent company will issue new shares representing 11 per cent of its share capital in order to absorb the 25 per cent it does not own in two large regional power groups, Sevillana and Fecsa, as well as 45 per cent of Gesa, the utility serving the Balearic islands, and 39 per cent of ERZ, a power company based in Zaragoza.

The deal, one of the largest capital increases by a Spanish company, also involves the buy-out of smaller holdings in three other Endesa units: Enher, Viesgo and Saltos de Nansa.

Shareholders in the affiliates will be offered Endesa shares in exchange for their shares, based on Wednesday's closing prices, and receive cash to round up the swap. The swap implies a premium of 4.6 per cent for *Fecsa shareholders and one* of 2.5 per cent for Sevillana investors.

The reorganisation of Endesa is driven by the need to increase efficiency in order to offset the impact of an accelerated liberalisation programme for the sector, unveiled by the government last month.

"There is a great deal of potential for cost-cutting in the affiliates," said Javier Garrido, utilities analyst at Merrill Lynch in Spain.

The transaction mirrors Endesa's move two years ago to raise its stakes in Sevillana and Fecsa, which then stood at 39 per cent and 49 per cent respectively, to 75 per cent in both utilities, for a total of Pta200bn.

Yesterday's move to gain outright control, which had been widely expected, was approved by the boards of the affiliates yesterday.

Analysts said the share swap would allow Endesa, the world's fifth largest utility by market capitalisation, to avoid increasing its debt ratio. The company, which traditionally generates strong cash flow, could be in a position to buy back shares in the future, they added.

Endesa was advised by Morgan Stanley.

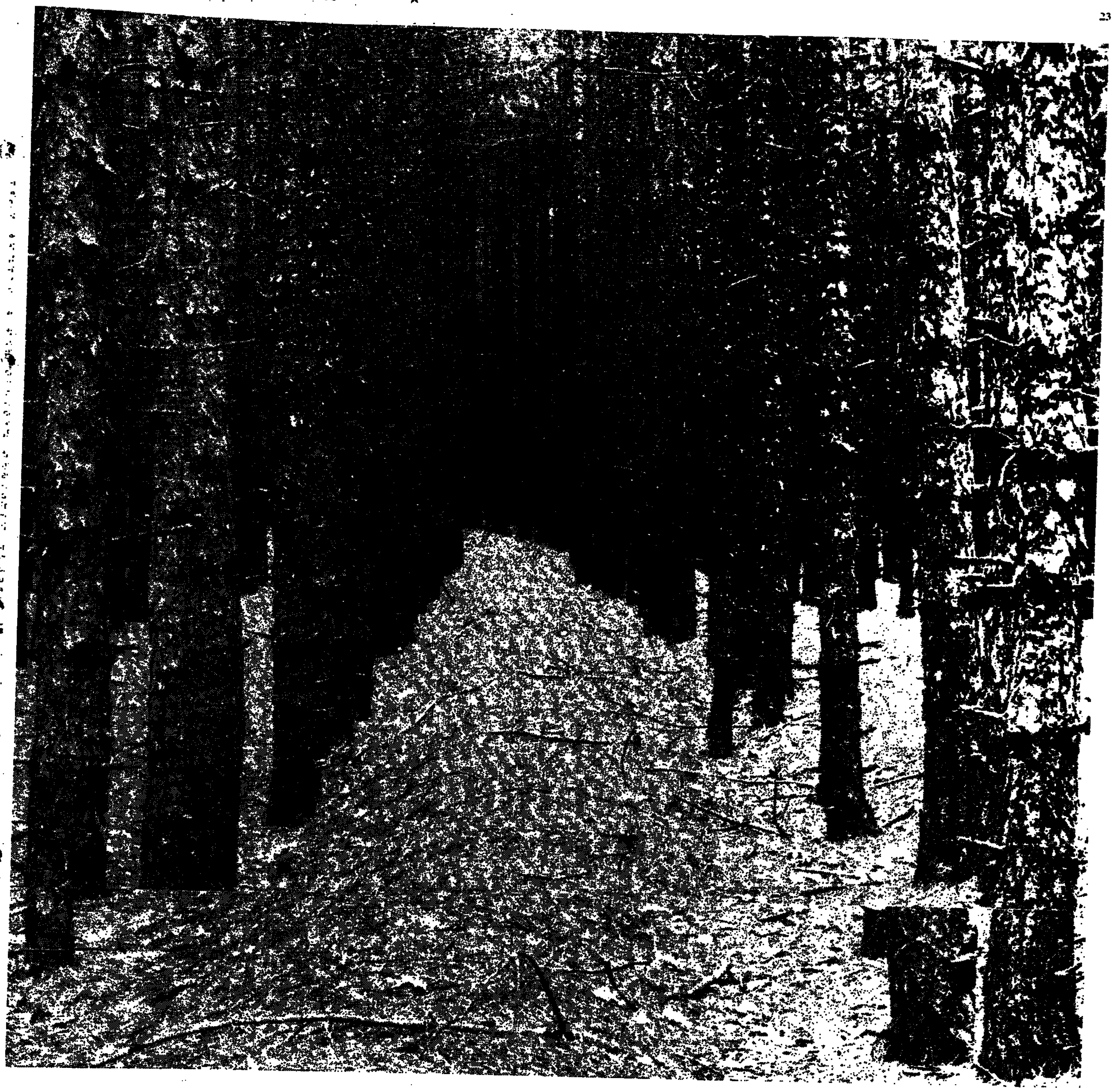
● Repsol, Spain's energy conglomerate, yesterday bucked the trend in the oil sector by announcing nine-month net income of Pta105.2bn, 18 per cent up on the same period last year.

Improved marketing and refining earnings comfortably offset the impact of progressively lower crude oil prices. Operating income *from downstream business* was up by 39.7 per cent year on year to Pta114.1bn, compensating for a 56.5 per cent fall in operating income from exploration and production.

The results were also boosted by a 76.6 per cent rise to Pta51.3bn in operating income from the group's gas division and by an increase of 16.3 per cent to Pta22.7bn posted by its chemicals unit.

صكنا من الاجل

Portugal to merge state energy group



JAPAN GROUPS ACCELERATE JOB CUTS

Hitachi and ANA step up restructuring

By Alexandra Harney in Tokyo

Signs that Japan's corporate sector was redoubling its efforts to prop up profits increased yesterday as Hitachi, the leading electronics group, and All Nippon Airways announced plans to accelerate restructuring programmes launched earlier this year.

Hitachi is to restructure its lossmaking power systems division in an attempt to return it to the black by next year. The decision to reduce its number of subsidiaries comes after the group warned that it would record its first-ever losses this year.

The group, which operates more than 60 subsidiaries in Japan and overseas, will consolidate seven of its *machinery and engineering* companies into three units employing a total of 5,780 staff by April 1999. The move will cut costs by Y9bn ($77m) and eliminate 900 jobs by the end of next year.

The staff cuts would be achieved through natural attrition, retirement and transfers, the company said.

It expects the new groups will *generate revenues of* Y196bn by March 2000, following a management reshuffle.

Hitachi brushed off speculation that it was preparing to sell any part of its power systems business, which is expected to fall into the red this year for the first time in more than 50 years.

Analysts have called Hitachi's restructuring plans – which include a 6 per cent reduction in staff levels and executive pay cuts – superficial.

The latest announcement came after the close of trading. But shares in Hitachi gained 5.3 per cent to Y716 after news that it would expand its co-operation with Equator Technologies, a US semiconductor and software company, to develop jointly and market a multimedia processor for use in personal computers, set-top boxes, and network equipment.

ANA, Japan's second largest airline, stepped up its plans to trim its workforce and revamp its leasing and purchasing procedures.

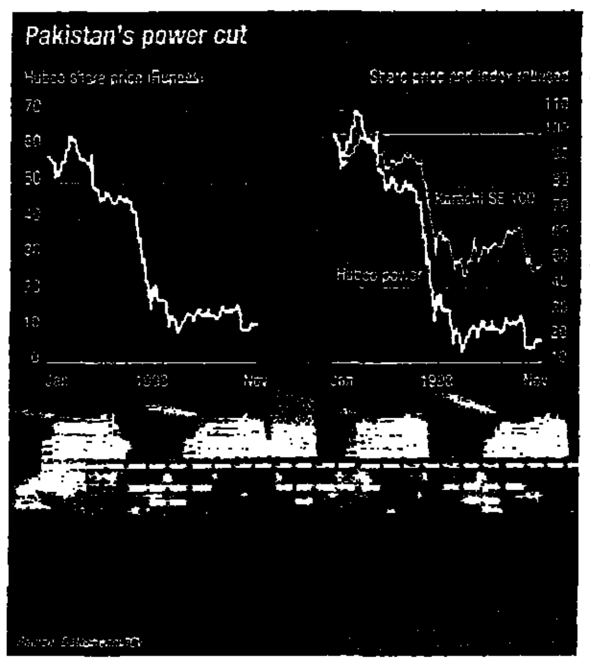
The move follows a series of gloomy profits warnings *from the lossmaking carrier.* Last week, it said it expected losses to balloon to Y6.9bn in the year to March, three times last year's losses of Y2.68bn. The fall is expected despite cost-cutting measures, including the sale of its hotel business in the US.

ANA said it aimed to cut 900 jobs to reduce its total workforce to 14,200 by 2000. *Most of these cuts* would be achieved through natural wastage and accelerated retirements, and would lead to cost reductions of Y13bn, it said.

The announcement did little to support the carrier's share price, which slid 3 per cent to close at Y452 yesterday.

Hubco dispute ignites investment fears

Pakistan's government has accused the power company of fraudulently changing its charges, writes **Farhan Bokhari**



The directors of Karachi's Hub Power Company, who are due to meet in Dubai next Tuesday, will have more on their minds than just the annual results.

Their main challenge is to decide how to tackle the company's future interests in an increasingly difficult operating environment.

In October, the Pakistan government stepped up months of confrontation with the company over tariffs charged to the state-owned Water And Power Development Authority, the main power generation and distribution company.

The government argues that Hubco's tariff was substantially raised in 1994 under former prime minister Benazir Bhutto after the contract came up for renegotiation. It has accused the company of fraudulently changing the tariff, suggesting that pay-offs were made to individuals in the Bhutto government for seeking the *change.*

It has unilaterally reverted to what it says was the original tariff of Rps1.36 (3 cents) for each kilowatt-hour of electricity purchased.

But some observers say the new tariff is sharply below the 1994 tariff agreement, where half was a fixed amount and half varied according to input costs *such as fuel and debt* servicing.

Under the revised formula, the tariff could be as high as 15 cents a kilowatt-hour when Hubco's 1292 megawatt plant is working below full capacity, but this could fall to just 6 cents a kilowatt-hour when it performed at full capacity.

In reality, the government has changed the tariff to help the almost bankrupt state-owned Water And Power Development Authority. For months, Wapda's officials have lamented the purchase of "expensive electricity" as the main source of their troubles, rather than widespread internal inefficiency and corruption.

For many investors, the clash between the government and Hubco is a bad omen and it has intensified anxieties surrounding the once most sought after share on the Karachi market.

These investor anxieties *are bound to affect the sentiment* surrounding future direct and equity investments in Pakistan, say some businessmen.

Khurshid Hussain, Hubco acting chief executive, says: "I don't believe the company has done anything unlawful. They [government investigators] are just coercing the company without any basis."

Government officials and western economists agree that the government appears to have had second thoughts about its strategy in its dispute with Pakistan's private power companies, though the softening has not been extended to Hubco. The World Bank has urged prime minister Nawaz Sharif's government to separate the *issue of renegotiating tariffs* with power producers from pursuing criminal charges.

"So far, it appears that the government has used its corruption investigations to seek lower tariffs, and the World Bank finds that unacceptable," says one senior government official.

One conciliatory step by the government has been the appointment of a new committee to examine the tariff charged by private power producers and which will suggest a formula for resolving the issue by end of the *month.*

The committee will examine the case of up to 19 smaller private power companies, but not Hubco. While some analysts believe that the gesture will be extended to Hubco, others say that a delay could be harmful. "The decision to appoint a high-powered committee *and then to say that* Hubco would be the only case that it would not examine has made it a confusing situation," says Sikandar Khawaja, country head, HSBC investment bank. Mr Khawaja is circumspect. "Under the circumstances, it's difficult to say where this case would go next".

Others, however, offer a bleak *outlook.* Nasir Bukhari of Karachi's Khadim Ali Shah Bukhari brokerage says: "The long-term prospects remain dim because the confrontation has gone beyond *a point of no return.*" He thinks a reconciliation between the government and Hubco looks difficult after the accusations made recently by government investigators.

For some analysts, the outcome of Hubco's arbitration proceedings, filed in the international court of arbitration of the International *Chamber of Commerce in* London, may be the only way to settle the matter. "That alone may break the deadlock and take the issue towards an eventual resolution," says one.

But Mr Hussain says: "This is in essence a commercial issue, and a solution lies in commercial realities."

Wrangle on tariffs stalls rescue move

By Andrew Taylor, Utilities Correspondent

The 1,292 megawatt Hub oil-fired power station near Karachi at the mouth of the River Hub represents the biggest foreign investment in Pakistan.

Hub Power Company is one of the most heavily traded shares on the Karachi stock market, accounting for about 5 per cent of the market's value even though its share price has slumped from a peak a year ago of Rps64.8 to just over Rps11.

The decline in the company's market capitalisation from $1.7bn to about $250m follows allegations of corruption and tariff cuts imposed by the Pakistan authorities.

The dispute between the government and Hubco has delayed negotiations on a financial rescue package for the country from the International Monetary Fund. Pakistan is facing arrears on $32bn of foreign debt.

The power station's biggest shareholder is National Power, the UK generator, which has a 26 per cent stake in the $1.5bn project. It invested about $100m of the plant's $400m of equity. Xenel of Saudi Arabia is the next largest shareholder, with about 15 per cent.

Dividends to shareholders, worth about $100m a year, have been halted as a result of court-imposed tariff cuts after the government claimed tariff agreements were inflated during the Bhutto regime.

The rest of the finance for the $1.5bn project was provided by a consortium of about 40 international banks. Much of this debt is underwritten by the World Bank, supported by Jexim of Japan.

Financial arrangements were also backed by foreign governments including those of Japan, France and the US. Officials have expressed concern at the failure of Pakistan authorities to honour international agreements.

NEWS DIGEST

PHARMACEUTICALS

Takeda bucks trend with 15% rise in first half

Takeda Chemical, the Japanese pharmaceutical manufacturer, broke the flow of bad earning announcements yesterday with a 15 per cent rise in group net profits in the six months to September 30 to Y46.2bn ($395m). The increase reflected a successful market expansion in the US and Europe, a weaker yen and cost cutting, the company said.

The interim dividend is lifted from Y9.25 to Y12.75, which helped push its share price to a record high of Y4,200 in intra-day trading, although it closed at Y4,160, only 1.5 per cent up on the day.

For the full year, however, Takeda sees only a slight increase in net profit as the domestic business environment is not expected to improve.

Interim net sales of Y427.2bn and operating profit of Y88.8bn remained almost unchanged. Domestic pharmaceutical sales were hit by the government's attempt to reduce healthcare costs, which led to a discontinuation of sales of Avan, a brain energy-metabolism enhancer. But *total pharmaceutical sales increased* by 1.8 per cent to Y301.4bn, helped by the launch of drugs in Europe and the US. Operating profits fell 3.9 per cent to Y61.9bn.
Julie Hess, Tokyo

RED CHIPS

Guangzhou raises HK$364m

Guangzhou Investment, a Hong Kong-listed window company of the Guangdong municipal government, yesterday raised HK$364m (US$47m) through a share placement. The deal is one of the latest cash-raising exercises by a red chip – or mainland-backed Hong Kong company – this week. While the Hong Kong stock market fell yesterday, red chips – encouraged by strong gains since September 1 – have continued to tap investors for cash.

Other deals yesterday included Shanghai Industrial, a Hong Kong-listed arm of the Shanghai municipal government whose shares were suspended ahead of an expected US$750m placement. Citic Ka Wah Bank, whose shares were also suspended, raised HK$456m, according to bankers. The bank is controlled by China International Trust & Investment Corp, Beijing's investment agency.
Louise Lucas, Hong Kong

SINGAPORE

Keppel cuts workforce by 10%

Keppel, the government-linked Singapore conglomerate, is cutting its 9,000-strong workforce by 10 per cent and will *sell, merge or shut about 50 of its 600 companies in the* face of undisclosed losses. "We have decided on severe cost-cutting measures leading to about S$100m (US$62m) savings per year, or about 12 per cent of the group's overhead," said Sim Kee Boon, chairman.

Keppel shares closed down 22 cents, or 5.6 per cent, at S$3.68. The conglomerate, whose extensive interests range from banking to property development, should return to making a profit in 1999, he said. Keppel plans to focus on five core areas: marine; offshore rigs, energy and engineering; banking and financial systems; property investment, development and management; and telecommunications and transportation. Mr Sim said that Keppel, excluding its property business, was working towards doubling return on equity within three to five years to 12 per cent. **Sheila McNulty, Kuala Lumpur**

NEW ZEALAND

Fletcher Challenge improves

The Fletcher Challenge Group, the diversified conglomerate, yesterday reported a strong performance in the September quarter forecast further improvement.

Earnings before interest and tax were NZ$133m (US$80m) in the September quarter. Michael Andrews, chief executive, said this was the highest for any period since the 1988 financial year, although "clearly not at our desired level".

The biggest improvement was in the paper division, which the group said would show a further lift in its debt ratios after yesterday's sale of UK Paper to the Finnish Metsä-Serla group for NZ$285m. Earnings were also helped by the end of the nine-month strike at Fletcher Challenge Canada, which led to an operating loss of NZ$240m. However, the Building Division was being hit by the slowdown in the New Zealand economy. Operating cashflow rose from NZ$276m to NZ$331m.
Terry Hall, Wellington

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 05.11.98: Pool purchase price £/MWh	Final Prices for Trading on 08.10.98: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	15.22	14.67	14.61	0.86
0100	15.22	9.40	9.40	0.00
0130	15.22	14.57	14.61	0.86
0200	15.22	14.67	14.61	0.86
0230	23.73	14.67	14.61	0.86
0300	23.73	14.67	14.61	0.86
0330	23.73	14.67	14.61	0.86
0400	23.73	14.67	14.61	0.86
0430	9.36	14.67	14.61	0.86
0500	9.35	14.67	14.61	0.86
0530	9.36	16.13	16.07	0.86
0600	9.36	16.13	16.07	0.86
0630	9.37	16.13	16.07	0.86
0700	15.56	14.86	14.60	0.86
0730	17.63	22.98	22.92	0.86
0800	30.05	29.99	29.94	0.86
0830	33.54	30.00	29.86	0.86
0900	33.54	28.56	28.51	0.86
0930	33.54	22.60	22.55	0.86
1000	33.54	22.59	22.55	0.86
1030	33.54	22.59	22.54	0.86
1100	33.54	19.59	19.54	0.86
1130	33.54	21.92	21.87	0.86
1200	33.54	26.92	26.86	0.86
1230	53.79	26.90	26.85	0.86
1300	53.79	21.88	21.82	0.86
1330	33.54	19.80	19.74	0.86
1400	30.05	20.80	20.73	0.86
1430	30.05	20.79	20.73	0.86
1500	30.05	19.79	19.73	0.86
1530	21.92	9.50	9.50	0.00
1600	21.92	9.49	9.49	0.00
1630	30.43	9.50	9.50	0.00
1700	43.06	9.60	9.60	0.00
1730	69.34	16.78	16.72	0.86
1800	69.57	19.54	19.47	0.86
1830	49.10	19.56	19.50	0.86
1900	46.09	32.73	32.68	0.86
1930	30.22	32.73	32.68	0.86
2000	37.25	23.64	23.58	0.86
2030	32.45	23.63	23.56	0.86
2100	27.45	23.63	23.56	0.86
2130	16.33	23.63	23.56	0.86
2200	16.33	27.01	26.94	0.86
2230	16.33	27.01	26.94	0.86
2300	16.33	23.32	23.25	0.86
2330	16.33	21.52	21.45	0.86
2400	9.37	14.95	14.89	0.86

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development [illegible]

COMPANIES & FINANCE: INTERNATIONAL

ELECTRONICS PUBLIC OFFERING PLANNED

Madrid aims to sell entire Indra stake

By David White in Madrid

The Spanish government plans to sell its entire 66 per cent stake in the Indra electronics concern in a public share offering next year, according to Pedro Ferreras, chairman of the state holding company Sepi.

He said the government would have to decide whether to retain a "golden share" in Indra because of its important role as a defence contractor.

The timing of the operation would depend on other plans for placing government stakes in the Iberia airline, the Ence paper group and the high-tension electricity grid Red Eléctrica on the market, also due by mid-1999.

Before the privatisation, Thomson-CSF of France is set to reduce the 25 per cent holding it bought in Indra in 1995 to about 10 per cent. Spanish authorities have been anxious that the French group, in which the French government currently has a 40 per cent stake, should not hold a dominant shareholding position after Indra's privatisation.

Denis Ranque, the Thomson-CSF chairman, who was in Madrid to sign a new co-operation pact with Indra, said negotiations were being completed to sell about 15 per cent to the Spanish banks Caja de Madrid and Banco Zaragozano. The sale would also ensure that the main Spanish institutional shareholders held a bigger stake than Thomson-CSF.

Investment banks have been invited to bid to advise on the privatisation. At current stock-market values the state's stake in Indra would be worth about Pta122bn ($870m), but Sepi said this was not a reliable valuation, since only about 1.5 per cent of the capital was traded on the stock market.

A deal in June, in which Banco Bilbao Vizcaya sold a 3 per cent stake in Indra to the regional savings bank Caja de Cantabria for about Pta9bn, put a significantly higher value on the company.

Indra, which makes a range of defence, transport, energy and telecommunications systems, more than doubled its net profit for the first nine months of this year to Pta1.69bn on sales 22 per cent higher at Pta45.4bn. It has forecast full-year profits of about Pta3bn.

The company, formed in 1992 through the merger of the state-owned Inisel and the private-sector Ceselsa, announced its first dividend earlier this year.

The new co-operation deal with Thomson-CSF, which includes research and marketing, aims to ensure Indra's participation in major European defence projects.

However, Indra said it would maintain a joint venture with Thomson's US competitor Raytheon in the international market for air traffic control and air defence.

Stora Enso unveils business structure

By Greg McIvor in Stockholm

Enso and Stora, the Nordic groups which are merging to form the world's largest paper company, yesterday unveiled a business structure based on eight divisions and said their new shares would start trading on December 30.

The announcement came amid growing confidence at the companies that their multi-billion dollar tie-up would be approved by the European Commission following a five-month inquiry.

The Commission is due to deliver its verdict by December 4. It has expressed concern over the domination the merged company would enjoy in some segments of the European paper and board market.

Particular concern was raised by Brussels over the strength of the group in the European market for liquid packaging board and in newsprint and magazine paper. Stora, based in Sweden, and Enso, would together have about 75 per cent of the lucrative liquid packaging board market.

The scale of any concessions offered by Stora and Enso to soothe the Commission's objections remains unclear, but top executives at the two companies are optimistic the deal will be allowed to proceed.

"We are hopeful that we will get approval," said one senior official.

The companies have rebutted claims they would dominate the liquid packaging board market by arguing that the market definition should include other materials such as plastic and glass.

They also maintain that liquid packaging should be considered part of the paperboard market because substantial overlap exists between it and other board grades. The announcement of heads for Stora Enso's eight divisions underlined the strong management hold which Enso, based in Finland, will have over the new organisation.

The eight posts will be filled by five Finns, two Swedes and a German.

Jukka Härmälä, Enso chief executive, has already been appointed to head the merged group.

Stora and Enso said the shares would be listed on the Helsinki and Stockholm stock exchanges on December 30.

Cir lifted sharply by gains from disposals

By Paul Betts in Milan

Cir, the Italian industrial holding company controlled by Carlo De Benedetti, yesterday reported a sharp rise in nine-month pre-tax profits to L297.8bn ($180m), from L3bn in the same period last year.

The increase included special gains totalling L228.8bn from the sale this year of its Sasib Railway subsidiary to GEC Alsthom and the disposal of its remaining stake in Olivetti, the telecommunications and information technology group. Excluding these gains, pre-tax earnings totalled L69bn.

Revenues declined 5.8 per cent to L2,460bn.

However, if the railway signalling interests sold this year are stripped out, revenues would have shown a 4 per cent rise.

Consolidated financial indebtedness fell to L82.9bn at the end of September from L440.9bn at the end of September 1997 and L275.9bn at the end of December 1997.

But the group's net financial position showed a positive balance of L148bn at the end of September, compared with an indebtedness of L520.9bn at the end of September 1997.

Cir said its French holding, Cerus, had liquid assets of about L409bn at the end of September.

Its Lasa property subsidiary had a nine-month consolidated loss of L22.4bn, compared with a loss of L30.4bn in the same period last year.

A special shareholders' meeting in Turin yesterday approved the company's proposal to reduce its share capital by L69.5bn, by cancelling 69.5m non-voting savings shares held by Cir.

Cir also said yesterday it was interested in acquiring from Novartis the Swiss pharmaceutical group's Dietorelle sweets and Dietor sweetener activities.

This would be as part of its strategy to build a presence in health foods.

Cir recently acquired an 85 per cent stake in Socalbe, a small Italian company active in this sector.

Carlo de Benedetti: Cir aiming to build presence in health foods

Nedcorp ahead 28% in year

By Victor Mallet in Johannesburg

Nedcor, one of the big four South African banking groups, increased net profit 28 per cent in the 12 months to September 30 but warned yesterday that the effects of high local interest rates and the downturn in consumer demand were still to be felt.

Attributable profit increased from R1.43bn to R1.82bn ($324m) in the previous 12 months, while earnings per share rose 24 per cent from 641 cents to 792 cents. Nedcor has changed its year-end to December and will produce audited results for the 15 months to end-1998 in February.

Richard Laubscher, chief executive, said profits were boosted by growth in non-interest revenue and a relatively small rise in costs, although these benefits were partly offset by reduced interest margins and higher bad-debt provisions. Non-interest revenue now makes up 45 per cent of total income.

Total assets rose 17 per cent to R112.07bn, while pretax profit was up 19 per cent from R1.97bn to R2.34bn. Return on average total assets rose from 1.62 per cent to 1.75 per cent, and the expense-to-income ratio dropped from 56.7 per cent to 56.9 per cent.

Diverse income helps NAB to beat forecasts

By Stephen Wyatt in Sydney

National Australia Bank, Australia's largest bank and its largest company by market capitalisation, reported a record A$2.51bn (US$1.58bn) net profit before abnormals, 13 per cent up on the previous year.

The rise was better than the average of analysts' expectations of $2.35bn.

Analysts attributed the rise to the bank's diversification of income streams. No one single stream accounts for more than 20 per cent of total earnings, and less than half the banks revenue's originated in Australia.

Non-interest income accounted for about 40 per cent of earnings.

NAB is active in traditional banking, custodial services, funds management and mortgage services in Australia, New Zealand, Asia, the UK and the US.

The strong US market and a lower Australian dollar also helped to lift its performance. Earnings from the US increased 34 per cent to A$242m. But returns from Europe were down A$11m to A$477m, and earnings from New Zealand fell A$8m to A$198m.

NAB had a 17.9 per cent return on equity, the highest of all Australian banks, said Alistair Hunter, banking analyst at Were Stockbroking. It increased its final dividend to 53 cents, against 49 cents last time.

After abnormal losses of A$497m, mainly for restructuring, net earnings were A$2bn, down 9.4 per cent on last time.

Total operating revenue increased by 22.3 per cent to $19.38bn and net interest income rose 9.3 per cent to $5.86bn.

Total exposure to Asia stood at $14.16bn, against $10.5bn at September 30 1997, with Japan accounting for $6.51bn, Hong Kong $2.83bn and South Korea $2.01bn.

"Our group is well positioned to continue its recent success due to its strong earnings momentum, diversified income streams, a quality balance sheet and sound capital position," said Don Argus, managing director. This is Mr Argus's last annual report. He retires early next year to become chairman of BHP.

NEC sees early chip recovery

By Alexandra Harney in Tokyo

The global memory market has bottomed out and could see a recovery as early as the next few months, Hajime Sasaki, executive vice-president of NEC, the leading Japanese semiconductor manufacturer, said yesterday.

Rising demand for digital consumer electronics, telecommunications products and personal computers will support memory prices, and a move toward high-speed chips will cut the amount of memory manufacturers, Mr Sasaki added.

The unusually frank forecast was the first indication by a Japanese chipmaker that the intense price competition that has hit electronics companies over the past 12 months could be easing.

Mr Sasaki attributed the collapse in prices of dynamic random access memory to the Asian currency crisis, which prompted Korean memory manufacturers to flood the market with inexpensive chips last year. NEC saw D-Ram prices plunge 60 per cent between October 1997 and April 1998.

But he said that he anticipated strong demand from PC companies next month, and that "the input from our key customers is that there will be strong demand from January to March."

This contrasts sharply with analysts' predictions for market trends: most do not expect the market to rebound until 2000.

NEC expects overall sales of semiconductors will grow 9 per cent this term, compared with the same period last year.

Although the group anticipates the market will shrink 5 per cent in the full year ending next March, sales are expected to jump 9 per cent in the year that begins in April 1999.

NEC said yesterday it had invested $15m in Vadem, a technology group based in California to jointly develop a line of microprocessors that is compatible with the WindowsCE system.

The Largest U.S. Initial Public Offering In History

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U.S. $4,403,497,821

CONOCO

191,456,427 Shares

Class A Common Stock

19,145,643 Shares

This portion of the offering was offered outside the United States and Canada by the undersigned.

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November 1998

COMPUTERS US GROUP THREATENS LEGAL ACTION AFTER COMPETITORS MOVE TO DEVELOP OWN STANDARDS FOR PROGRAM LANGUAGE

Sun warns rivals over Java language use

By Christopher Price in Zurich

Scott McNealy, chief executive officer of Sun Microsystems, the US computer group, yesterday warned a rival group of information technology companies they would face legal action if they broke contracts relating to Sun's Java computer language.

His comments followed news this week that 14 information technology companies had banded together to develop their own standards for Java, a programming language that enables software to run on any type of computer.

Hewlett-Packard, Microsoft, Siemens, Rockwell and other members of the group aim to create Java standards for "embedded applications" such as the computing devices built into printers, cellular telephones and other equipment.

The industry group complained that Sun was not moving quickly enough to exploit the potential of Java in such applications.

Mr McNealy, who has fought to keep the Java language under Sun's control, said: "If they step outside their Java licences they will be in breach of contract."

Sun is pursuing legal action against Microsoft, alleging that the software group breached its contract by altering the Java language to optimise its performance on Microsoft's Windows operating system.

The dispute over Java has also been raised in the US Juctice Department's anti-trust case against Microsoft, being heard in a Washington court.

Mr McNealy, a long-standing critic of Microsoft's dominance of the operating system and software markets, said he did not support suggestions from some quarters that Microsoft should be broken up if it loses the anti-trust case.

He said he believed the US government's pursuit of Microsoft should not stop after the case and that the company would need continued close scrutiny by government regulators.

Mr McNealy, on a tour of Sun's big European customers, said the Unix operating system used on Sun's computers was beginning to take market share from Microsoft NT operating system.

Canadian exchanges act to stem listings losses

Coalition of virtual exchanges and move to for-profits may help, says **Edward Alden**

Canada's stock exchanges, which have seen a steady erosion of liquidity and the migration of some top Canadian companies to US listings, are belatedly trying to reverse that decline.

David Brown, chairman of the Ontario Securities Commission, which regulates the Toronto Stock Exchange, said this week that Canadian securities regulators were attempting to halt the fragmentation of Canadian capital markets, which is likely to become more severe with the introduction of alternative trading systems.

The problem of fragmentation – in which an increasing proportion of trades take place outside the traditional exchanges – is one the TSE has also pledged to combat with its proposal last month to transform itself from a non-profit organisation into a private, for-profit company.

The TSE is the third largest in North America and the world's 10th largest, but critics say it has failed to keep pace with rapidly changing global capital markets and the demands of institutional investors who account for about 80 per cent of the Canadian equity market.

Institutional investors, who engage in large block trades with the potential to move market prices if they are disclosed, have increasingly opted for "upstairs trading" in which a TSE-listed investment dealer matches the order from its own customers or inventory without subjecting the bid to open auction. The trades are later registered with the exchange as cross-trades.

So while volume on the TSE has quadrupled since 1989, the exchange's central order book, where buy and sell orders are matched, has not grown and has actually been declining since 1995.

The problem is expected to become more severe with the expansion of alternative trading systems in Canada, which offer lower transaction costs and anonymity for institutional investors. Private companies that offer electronic trading services are already well established in the US. Some 50 companies handle about 4 per cent of New York Stock Exchange trades and 20 per cent of Nasdaq volume.

In Canada, alternative trading systems have been prevented by securities regulations from competing directly with the exchanges, but these restrictions are expected to ease soon.

Mr Brown this week proposed the creation of a "consolidator" that would link Canada's four traditional exchanges – Toronto, Montreal, Alberta and Vancouver – with new trading systems in a sort of virtual national exchange. This would allow orders to be filled at the best price on whatever exchange that price appears.

The TSE also unveiled last month a proposal to become a for-profit company, as was done by the Australian and Swedish exchanges. The TSE hopes privatisation will make it into a lower-cost, more entrepreneurial organisation.

Initiatives include an agreement with Standard & Poor's to develop new derivatives trading instruments for the TSE, which has one of the least developed derivatives markets of any major exchange.

But creating an entrepreneurial culture in Canadian stock exchanges will be no easy task. Edward Waitzer, former chairman of the OSC, says Canada has been slow to respond largely because of a history of protectionist measures that restricted the entry of new competitors. It is only in the last decade, for instance, that banks were even permitted to enter the brokerage business.

The TSE has not yet adopted some of the new technologies that might reverse the growth of upstairs trading. Nasdaq, for instance, will soon begin using the Optimark electronic share dealing system which allows large orders to be matched on exchanges anonymously. The TSE has been in discussions with Optimark for more than a year, but has made no decision yet.

The problem of declining liquidity may be more acute than even innovative regulators and exchanges can successfully address. Bill Reidl, president of Fairvest Securities in Toronto, says the large bank-owned brokerages do most of their trading internally because it pays to do so.

Upstairs trading is highly profitable because it allows the dealer to collect both ends of the commission, and sometimes to profit from the spread between bid and ask prices. Increasingly the brokerages have even been bundling small retail trades into larger blocks and matching them internally.

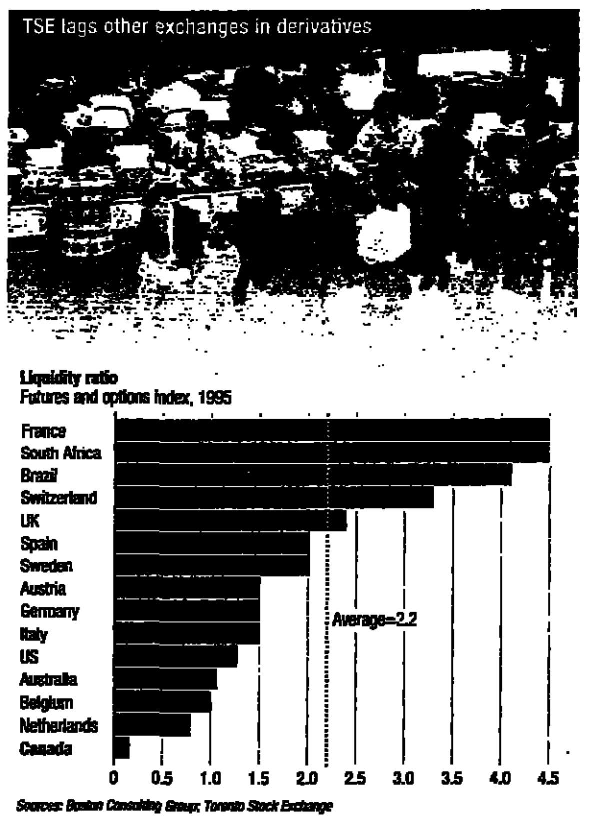
Nor will it be easy to stem the flow of Canadian listings to the US. More than 220 Canadian companies interlist on the TSE and a US exchange simultaneously.

In a report last month, the TSE warned that "US competition for liquidity may challenge the TSE's leadership for price discovery in Canadian securities.

Ultimately, the TSE may be marginalised with Canadian companies bypassing it altogether and listing exclusively on a US exchange."

While initiatives to enhance the TSE's liquidity may discourage some interlisting, analysts say interlisting will grow as more and more large Canadian companies find their size simply exceeds the demand from retail shareholders in Canada.

TSE lags other exchanges in derivatives



Sources: Boston Consulting Group; Toronto Stock Exchange

Boston Scientific faces lawsuit

By Victoria Griffith in Boston

A class-action lawsuit was yesterday launched against Boston Scientific, the medical device company, alleging that the group misled shareholders by mis-stating its accounts.

Earlier this week Boston admitted it had improperly claimed revenues of \$40m-\$50m in sales at its Japanese subsidiary during the first three quarters. Another \$40m may have been mis-stated in earlier periods.

Boston shares have fallen about 30 per cent this week because of the accounting discrepancies. At mid-session yesterday they stood at \$44¾, up \$1⅛.

Anyone who purchased Boston shares this year and suffered a loss could join the law-suit, said Berman Devalerio & Pease, the firm behind the action. It alleged that Boston was over-zealous in trying to meet business plans and objectives.

Boston's main products are used to keep patients comfortable during coronary surgery. The group sells catheters and stents – small wire meshes that keep arteries open during surgery.

Boston has grown aggressively in the rapidly expanding sector of medical equipment. Its two founders - Peter Nicholas and John Abele – were named among the richest people in America by Fortune magazine. In 1994, the group made \$300m in sales and had forecast revenues of \$3bn in 1999, although those figures may need revision in light of the Japanese accounting announcement.

Its share price surged earlier this year on news that the company's new stent product – the NIR stent – had been approved by the US Food & Drug Administration.

However, the company has suffered bad news lately. Earnings are down, which the company blames on its late entry into the stent market, and last month it was revealed that some of the NIR stents had developed pin holes, making them unusable in surgery.

Analysts are also concerned about the group's high gearing. Earlier this year, Boston announced the purchase of a medical device unit from Pfizer for \$2.1bn. That left it with a forecast \$1.8bn in debt at the end of 1998, and a debt-to-book-value ratio of 63 per cent.

Microsoft, Qualcomm plan wireless data venture

By Louise Kehoe in San Francisco and Christopher Price in Zurich

Microsoft is planning to form a joint-venture company to develop software and services for wireless data communications with Qualcomm, the developer of wireless communications technologies and products.

The venture, to be announced next week, is expected to develop software for use with a new generation of digital communications and computing devices that combine the features of cellular telephones with those of mobile computers.

The link-up is expected to focus on technologies and services for linking corporate computer networks to wireless data networks.

It signals a bid by Microsoft to establish its role in the emerging market for wireless data communications in the face of potential competition from Symbian, a recently formed wireless communications alliance formed by Psion, the UK hand-held-computer company. Symbian partners include Motorola of the US, Nokia of Finland and Ericsson of Sweden.

Symbian aims to establish its Epoc operating system software as the standard for a new generation of wireless data communications devices.

Yesterday Symbian acknowledged that the Microsoft/Qualcomm venture could represent competition. However, it added that the move by Microsoft would "legitimise what we are doing. It demonstrates the importance of wireless information devices."

Industry analysts expect the Microsoft/Qualcomm partnership to adopt Microsoft's recently announced "microbrowser" for use on wireless devices, together with Microsoft's Windows CE operating system for hand-held devices.

Separately, in Zurich yesterday, Scott McNealy, chief executive of Sun Microsystems, expressed interest in joining the Symbian alliance. Sun's Java programming language is an integral part of the Symbian software development effort.

Mr McNealy denied that David Potter, Psion chairman, had discussed with him the possibility of Sun investing in Symbian.

See Lex, Page 20

Bookseller lines up website chief

By John Labate in New York

Barnes & Noble, the US bookseller, has appointed Jonathan Bulkeley as chief executive of barnesandnoble.com, the company's online book division.

Mr Bulkeley has headed America Online's UK operations for the past six years, and has also served as managing director of AOL's European joint venture with Germany's Bertelsmann.

"What Barnes & Noble has done in the store we need to do online," Mr Bulkeley said yesterday. "There's still a lot to do and obviously we're not the largest online bookseller. But I'd like to be the best."

Since its inception in early 1997, barnesandnoble.com has had mixed success in challenging the leading online bookseller Amazon.com. Its website has undergone several redesigns in recent months and has seen strong growth during that time.

In revenue terms, however, it remains dwarfed by Amazon.com, which is nearly 10 times larger. Mr Bulkeley also joins barnesandnoble.com at a time when online booksellers, led by Amazon.com, are branching into new lines, ranging from music to videos.

Mr Bulkeley's appointment indicates Bertelsmann is taking a prominent role in the future of barnesandnoble.com, according to Danielle Turnof Fox, equity analyst at J.P. Morgan in New York. "It should be a major accelerator in leveraging Barnes & Noble's brand online."

In October, Bertelsmann said it would pay \$200m for a 50 per cent share of barnesandnoble.com. The public offering for the online division, which had been expected this autumn, was shelved owing to the new partnership. The IPO of barnesandnoble.com is still expected to go forward, perhaps in the first half of 1999. Mr Bulkeley replaces Stephen Riggio, who returns to full-time work as vice chairman of Barnes & Noble.

Ecuador banks poised to merge

By Justine Newsome in Quito

A merger between three of Ecuador's banks is set to create a national mega-bank with more than 20 per cent of the market.

The Banco Pacifico Popular (BPP), combining Banco del Pacifico, Banco Popular and Banco Cofiec, will have assets of \$2.9bn. The three banks' 10,000 shareholders will meet at the end of this month to vote on the deal which must then be approved by the Superintendency of Banks, the sector's regulatory authority. The whole merger process is expected to take two months.

The merger announcement has been welcomed by Ecuador's banking authorities, keen to rationalise a weakened and over-populated financial sector, where 40 institutions serve less than 6m customers. The authorities have been quick to emphasise that this is a union between strong and complementary institutions, but there are hopes that the need to compete with the new mega-bank will lead to further mergers and an overall strengthening of the sector.

"We have already had a process of mergers on a smaller scale but we see this very positively," said an executive at the Private Banks Association. Analysts believe such rationalisation of the sector could make it more attractive to investments by foreign banks.

Banco del Pacifico, Ecuador's fourth largest, is a retail bank which has invested heavily in technology. Banco Popular, the fifth largest, and Cofiec, a smaller bank, have a mainly corporate client base.

However, the banking sector as a whole has been suffering a liquidity squeeze. Although bad debts are officially valued at only 5 per cent of banks' portfolios, analysts believe the real figure is considerably higher.

Ecuador has had almost four years of slow economic growth and political instability.

NEWS DIGEST

ENERGY

CMS and DTE to build $240m Ford power plant

CMS Energy, the Michigan-based utility, and DTE Energy, the Detroit-based energy group, yesterday announced plans to construct and manage a \$240m co-generation power plant for Ford Motor Company's Rouge manufacturing complex.

The new natural gas-fuelled plant will replace the existing Rouge powerhouse, and CMS said that it had signed a letter of intent with Ford and Rouge Steel to provide up to 400 megawatts of electricity and 1.7m pounds per hour of steam over a 15-year contract period. The joint venture that will operate the project will be owned 70 per cent by CMS and 30 per cent by DTE.

The Rouge complex is Ford's biggest manufacturer and dates back to 1918. It employs about 10,000 people, from both Ford and Rouge Steel. There is interest in the deal because there have been relatively few independent power plants built in the US recently, as the nation's move towards more deregulated electricity markets has created uncertainty and diverted investment.

CMS last brought on new power in Michigan in 1990, with the Midland co-generation plant. Ford said its home state remained short of electrical generation capacity, as well as transmission capacity. It said any surplus power from Rouge would be fed into the state's south-east grid.

The project is due to replace the existing powerhouse in 2000. **Nikki Tait, Chicago**

CARMAKING

Mitsubishi to cut 1,000 jobs

Mitsubishi Motors, the Japanese carmaker, yesterday finalised a restructuring plan, to be completed by March 2001, that calls for the laying-off of about 1,000 workers in the US and the closure of two plants in Japan, The Nihon Keizai Shimbun reported. The newspaper said Katsuhiko Kawasoe, the Japanese carmaker's president, will announce the plan today.

The newspaper said about 25 per cent of staff will be cut at Mitsubishi Motors of America in Illinois, and Mitsubishi Motor Sales of America in California.

In Japan, a bus factory in Nagoya and a truck component plant in Tokyo will also close as their operations are shifted to other plants. Mitsubishi Motors will consider selling the two sites.

The company also plans to halve its number of platforms to six, according to the report. By streamlining operations, Mitsubishi Motors hopes to stop ongoing losses. The group expects to break even on a parent-only pre-tax profit basis in fiscal 1998, the newspaper reported. **APDJ, Tokyo**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

NOTICE OF EARLY REDEMPTION

To the Holders of

International Bank for Reconstruction and Development

(the "Bank")

US$100,000,000 7.025% Notes due 2007

(the "Notes")

NOTICE IS HEREBY GIVEN that, all of the outstanding Notes will be redeemed by the Bank on November 14, 1998 (the "Optional Redemption Date"), pursuant to Condition 6(e) of the Terms and Conditions of the Notes and Condition 15 of the Pricing Supplement, dated November 7, 1997. The Notes will be redeemed at their principal amount outstanding together with accrued interest to the Optional Redemption Date. Interest shall cease to accrue on and from the Optional Redemption Date.

Payment of principal and interest will be made on November 16, 1998, against presentation and surrender of, respectively, the Notes and interest coupons appertaining to the Notes at the specified office of Citibank, N.A. London Office or Banque Paribas Luxembourg.

International Bank for Reconstruction and Development
By: Citibank, N.A., as Global Agent

Dated: November 6, 1998

BANCO CITIBANK S.A.
(The "Issuer")

U.S.$500,000,000

Global Brazil-Related Medium-Term Note Program (the "Program")

Notice of Resignation of Paying Agent and Appointment of New Paying Agent

Notice is hereby given that (i) The Yasuda Trust and Banking Company Limited, New York Branch, has resigned as a Paying Agent under the Program and as Principal Paying Agent with respect to the Series 6 of ¥5,000,000,000 principal amount of 4.3% Fixed Rate Notes due December 10, 1999 under the Program (the "Outstanding Series") and (ii) the Issuer has, with the approval of Yasuda Bank and Trust Company (U.S.A.), as Trustee for the holders of Notes issued under the Program, appointed Chase Trust Bank to serve as a Paying Agent under the Program and as Principal Paying Agent with respect to the Outstanding Series.

BANCO CITIBANK S.A.,
São Paulo
November 6, 1998

To: Holders of the Notes listed below issued by IMI Bank (International) S.A. (formerly known as IMI Bank (International) S.A.):

FRF 1,000,000,000 9 1/8 per cent. Notes due 2002 (the "FRF Notes")
USD 135,000,000 Guaranteed Zero Coupon Bonds due 2005
(the "Zero Coupon Bonds" and together, the "Securities")

Notice is hereby given that Istituto Mobiliare Italiano S.p.A. (formerly the Guarantor under the Securities) ("IMI") has merged by incorporation into Istituto Bancario San Paolo di Torino S.p.A. The merger became legally effective on 01 November 1998 (the "Effective Date"). As of that date, the entity resulting from such merger has been renamed "Istituto Bancario San Paolo di Torino-Istituto Mobiliare Italiano S.p.A." ("San Paolo-IMI S.p.A."). Pursuant to Art. 2504bis of the Italian Civil Code, automatically and by operation of law, all the rights, obligations and liabilities of IMI, including IMI's rights, obligations and liabilities as Guarantor under the Securities have passed to San Paolo-IMI S.p.A. with effect on and from the Effective date.

In all other respects the Terms and Conditions of the Securities remain in full force and effect.

Trustee (in respect of the FRF Notes)	Trustee (in respect of the Zero Coupon Bonds)
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IMI Bank (International) S.A.
Date: 6 November 1998

INSURANCE WEATHER LOSSES AND COMMERCIAL PROPERTY CLAIMS BLAMED FOR DOWNTURN AT NINE MONTHS

Royal & Sun may exit some business areas

By Andrew Bolger

Royal & Sun Alliance, the UK-based composite insurer, yesterday warned it would cut jobs and withdraw from certain areas of business after reporting a collapse in profits and unexpectedly high underwriting losses.

RSA's shares fell by 50½p to 495½p, and dragged down other composites such as Guardian Royal Exchange and CGU, as the market became alarmed over the continuing pressures on general insurers – particularly in commercial property.

Operating profits in the nine months to September dropped to £342m ($578m) against £738m at the same stage last year – well below analysts' expectations.

Bob Mendelsohn, chief executive, said: "These are results that clearly have been affected by the exceptional weather losses and the large commercial property claims which have hit the industry as a whole. Even allowing for these factors, I consider these results to be disappointing. During the balance of this year and throughout 1999, we will be aggressively addressing both the underwriting and expense components of all our operations."

Mr Mendelsohn declined to specify where any job cuts might fall, but most are expected to be in the UK general insurance business, which employs about 22,000 people out of a total of 43,000 staff worldwide. The UK commercial business, in particular, may be hardest hit as a deterioration in trading is likely to mean a withdrawal from some lines.

Total weather losses amounted to £158m, an increase of £38m. In addition, subsidence losses rose by £32m to £118m.

On the life assurance side, RSA said there had been an encouraging growth in new business in a number of its operations – particularly in the UK, where new single premiums rose by 28 per cent and new annual premiums rose by 9 per cent.

Mr Mendelsohn predicted further consolidation in the industry. "As companies start to address their own cost issues the rationale for mergers and alliances becomes more compelling," although "prices being asked are still too high at present".

Loss on DIY disposal puts Boots in the red

By Maggie Urry

Lord Blyth, chairman of Boots, the retail chemist and healthcare group which reported interim profits yesterday, said current trading was "not as good as we would like, but it's not a bloodbath".

He was referring to remarks by Sir Richard Greenbury, chairman of Marks and Spencer, who said there was a "bloodbath" in the clothing sector, when he announced a dip in that group's profits this week.

Lord Blyth said that while consumer confidence had fallen, there was a danger retailers could talk themselves into a consumer recession. He said that, with yesterday's interest rate cut and further reductions expected, consumer confidence could pick up next year.

Boots made a £74.7m ($126m) pre-tax loss in the six months to September 30, compared with profits of £105.4m. But this was after a loss of £322.2m on the sale of Do It All, the DIY chain in August. That loss largely reflected goodwill previously written off against reserves. Excluding exceptional losses in both periods, pre-tax profits slipped 0.8 per cent to £251.4m.

Fully diluted earnings per share were 18.9p, down from 19.1p, before exceptionals, while including those losses Boots incurred losses per share of 16.1p, compared with earnings of 2.6p.

Lord Blyth said it had been hard to disentangle the effect of weaker consumer confidence from that of the "miserable" weather of the summer and recent weeks. In all, the poor summer weather had cost £20m in sales and £8m in profits. But the group was better prepared than ever for the important Christmas period, he said, with more stock in the shops early.

The shares jumped 82p to 948p, in spite of a fall in the market, but analysts put this down to a recovery from recent share price weakness.

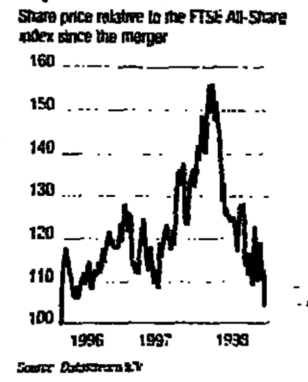
Turnover rose from £2.37bn to £2.46bn and operating profits advanced from £243m to £251m.

COMMENT

Royal & Sun Alliance

Royal & Sun Alliance

Share price relative to the FTSE All-Share index since the merger



It may be thought worrying when a company feels the need to point out it is running its operations on "strict business criteria". Insurers, though, cannot be reminded enough times not to chase unprofitable business. Royal & Sun Alliance's results were such a reminder. Admittedly, profits slid mainly because of a string of disasters, including exceptional weather losses and large commercial property claims. But this does rather go with the insurance territory. And the big concern is that as both the UK and the US economies head south, the level of claims will shoot up. That, combined with a slowdown in new business being written presents an ugly picture.

Meanwhile, competition is still putting pressure on rates. For a company still focused on commodity-style insurance products – household or commercial property – these are painful times.

Of course, the company needs to cull unprofitable lines. This, though, compounds the problem of excess capital which besets the industry. In its quest for growth, Royal & Sun Alliance is partnering household names such as Boots and Halifax. These distribute and sell policies, leaving Royal as the underlying insurer.

The problem is that these are very powerful distributors, skilled at squeezing their suppliers' margins. As if this were not a big enough challenge, still more needs to be done on reducing costs.

Boots

Boots turned in a less blood-spattered set of results than fellow retailer Marks and Spencer. That is not wholly surprising: Boots classifies around two-thirds of its products as essentials. The average ticket size is also smaller. But at least it sends a message that bad weather and faltering confidence has not washed away the High Street completely.

Trading uncertainties aside, Boots is in robust health. To a decent record of delivering value has been added a restless creative energy. This is most clearly evident in the way the brand is being stretched – to areas as disparate as insurance and dentistry.

By moving upmarket, the company has also neatly sidestepped the main competitive threat, from supermarkets. Of course, this leaves it more vulnerable than before, should the economy sink into a recession. But it remains a safe bet compared with most of the retail sector.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Barlo ♣	6 mths to Sept 30	88.6	(58)	5.8♥	(2.95)	3.15	(1.65)	0.55	Jan 18	0.45	-	1.25
Bett Brothers	Yr to Aug 31	59	(47.2)	5.45	(6.95)	27.33	(34.08)	5.4	Jan 18	4.85	7.45	6.75
Boots	6 mths to Sept 30	2,455	(2,375)	74.7L♠	(105.4♠)	16.2L	(2.6)	7.1	Feb 5	6.7	-	22.3
Buckland Inns Φ	6 mths to July 31	3.39	(-)	0.06L	(-)	0.62L	(-)	-	-	-	-	-
Estates & Agency	Yr to June 30	5.53□	(5.63□)	2.03	(1.54)	26.9	(17.9)	6.5	Apr 8	9.5	20.5	16.5
Galen	Yr to Sept 30	48.9	(39.3)	12♥	(11.4♥)	6.91†	(8.03)	0.88	Feb 26	0.367	1.32	0.367
Railtrack	6 mths to Sept 30★	1,286	(1,235)	224♥	(199)	42.8	(44‡)	8.7	Apr 6	7.9	-	24
Rolfe & Nolan	6 mths to Aug 31	9.54	(9.69)	0.205♥	(0.569L)	2.27L†	(2.93L)	1	Nov 27	1.7	-	1.7
Royal Sun Alliance	9 mths to Sept 30	7,040■	(6,937■)	636♠	(832)	21.6	(35.7)	-	-	-	-	21
Royal Dutch/Shell$	9 mths to Sept 30	103,670	(128,363)	4,089‡‡	(6,124‡‡)	0.99	(1.38)	-	-	-	-	13.1♦
Smart (J)	Yr to July 31	18.8	(22.5)	3.52	(3.66)	27.38	(27.03)	7.5	Dec 21	7.2	10.2	9.8
Yates Wine Lodges	6 mths to Sept 27	56.4	(44.1)	6.19	(5.07)	8	(6.4)	1.38	Feb 15	1.15	-	3.45

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh Inca	Yr to Sept 30	18.32	(42.17)	0.206	(0.111)	0.25	(0.13)	nil	-	nil	nil	nil
Northern Venture	Yr to Sept 30	99.6	(100.3)	1.14	(0.802)	3.14†	(3.29)	1.8	Dec 17	1.8	3	3
Value Realisation	6 mths to Sept 30	137.5	(147.2)	1.94	(0.999)	2	(1.1)	-	-	-	-	1.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. □Gross income. ★Comparatives restated. ‡After windfall tax. ■Net premiums written. $US currency. ‡‡Net income after minorities; earnings refer to Shell Transport & Trading. ♦Shown in pence; includes foreign income dividend element.

NEWS DIGEST

FOOD PRODUCERS

Collapse in pig prices prompts PIC warning

Collapsing pig prices worldwide have cut profits at PIC International, the pig breeding business left after the break up of Dalgety was completed in June. Yesterday the company warned that operating profits in the current six months would halve from the £14.3m achieved in the six months to December 1997.

"There are a lot of pigs out there," said Phil David, chief executive. Although pig producers are accustomed to price cycles, the current downturn had been "extraordinary". Last month shareholders were told in the annual report that PIC was "more insulated against the earnings volatility associated with fluctuating slaughter pig prices". Yesterday Mr David said most of PIC's competitors were now losing money while PIC was still profitable.

However, analysts said the sudden profit collapse had damaged PIC's image as a high-tech genetics stock. One said, "what was regarded as a growth stock is now a commodity stock". Speculation increased that a bid for the group could emerge.

Mr David said it was hard to predict when profits might improve, although he said the US futures market suggested pig prices might begin to recover next spring. Analysts cut their forecasts for the year, but said new estimates were "best guesses". David Lang, analyst at Henderson Crosthwaite, the broker, pencilled in £12m. In the last financial year, PIC made an operating profit of £28m.

Mr David said outbreaks of swine fever during the last upswing of the hog cycle had encouraged an excessive increase in production. That was followed by economic problems in many of the large export markets for pork, such as Asia and Russia. In the US, hog prices have fallen from more than 60 cents a pound to less than 20 cents since mid 1997, while in Europe the drop had been even steeper and prices were back to pre-war levels. PIC shares fell 8½p to 67½p. **Maggie Urry**

INVESTMENT BANKING

Setback for Barings settlement

Three vulture funds threatening to block a settlement relating to bonds issued by the collapsed Barings investment bank have enlisted one of Wall Street's heaviest hitters as an adviser. Wilbur Ross, senior managing director at Rothschild Inc, the US investment bank, has years of experience on both sides of negotiations over the remnants of failed companies.

His appointment by the three funds, which claim to control a majority of one class of Barings bonds, is a further sign that the proposed settlement, which would clear the way for partial payment of £190m ($321m) in holdings, is doomed.

If the deal fails to win approval at a fourth attempt next Wednesday it will collapse, raising the prospect of lengthy litigation against Barings' former auditors.

The Halcyon, Scoggin and Milton funds have also appointed new lawyers from the recently expanded London office of Cadwalader, Wickersham and Taft, the New York firm.

These funds have accumulated, at prices up to half of face value, more than half of $150m in floating rate notes issued by Barings in 1986. Under the plan, FRN holders would receive 60 per cent of nominal value, while holders of £100m of perpetual notes issued in 1994 would be paid 23.6 per cent of face value. The vulture funds, however, argue that any money available should be paid to FRN holders first, since they have a higher legal priority in a liquidation. They appear to be willing to see the compromise collapse and take their chances in court. **Clay Harris**

BUILDING MATERIALS

Aggregate/Tarmac talks progress

Talks between Aggregate Industries and Tarmac over a £1.66bn ($2.8bn) merger are understood to be progressing well and a deal could be announced before Christmas. Senior executives from the two big building materials companies have been meeting regularly to discuss the combination.

Analysts believe the merger would face strong opposition on competition grounds from the Office of Fair Trading. The new company would have a dominant position in quarrying in the Midlands and in the production of coated stone. But Construction News, the trade publication, yesterday said Tarmac and Aggregate Industries were holding informal talks with the OFT to establish what disposals would be necessary to avoid avert the referral of the merger to the Monopolies and Mergers Commission. The OFT declined to comment. **Jonathan Guthrie**

SUPPORT SERVICES

Micro Focus shares fall 43%

Shares in Micro Focus fell more than 43 per cent yesterday after the Anglo-American information technology group said US demand for products to tackle the millennium bomb had fallen. The group – which offers software development tools and services to corporate customers – said most work preparing computers for the 2000 date change had been done, and US businesses were starting to move back to their core IT development work. Analysts yesterday downgraded full-year pre-tax profit forecasts for the group from £36m to £16m. **Susanna Voyle**

Railtrack hopes to develop profit sharing

By Charles Batchelor, Transport Correspondent

Railtrack, the rail infrastructure provider, hopes to develop a range of income or profit sharing deals which would increase its return on investment and give it a greater share in the expected rail renaissance.

Gerald Corbett, chief executive, said yesterday that 91 per cent of Railtrack's income was based on track-access agreements which did not reward it for increases in train services and give it little incentive to invest in enhancements to the rail network.

Apart from the £2.1bn ($3.5bn) west coast mainline upgrade, where it has a income-sharing deal with Virgin Rail, Railtrack has begun to plan improvements to the east coast main line which could cut 45 minutes off London-Edinburgh journey times.

It is carrying out a study of the 15 most serious bottlenecks on the rail network, while the train operating companies have put forward 2,000 smaller improvement schemes which they want carried out.

Mr Corbett was speaking after Railtrack had announced a 13 per cent rise in pre-tax profits to £224m in the six months to September 30, on turnover which rose 4 per cent to nearly £1.29bn.

Railtrack has been criticised by train operating companies for failing to support investment proposals and has been under pressure from the rail regulator to speed up investments.

"We want more profit-sharing deals to align our interests with the train operators," said Mr Corbett.

Railtrack's attempts to reposition itself as a growth stock rather than utility has yet to convince some in the City.

"The main improvements will come from Railtrack backing away at its cost base," said Andrew Darke, an analyst at Williams de Broë. "Even the projects already under way will contribute little to profits for a long time."

Railtrack is also keen to take over the management of London Underground's infrastructure.

It is looking at the prospect of reviving the Crossrail project – a plan for an east-west main line link under London – but using the northern loop of the Circle Line instead of driving a new tunnel.

ENVIRONMENT ENERGY EFFICIENCY

Warming to new initiatives

Bernard Jamet of the EBRD tells **Caspar Henderson** of the former eastern bloc's growing appreciation of conservation

The countries of the former Soviet Union may have plunged into economic crisis, but Bernard Jamet is convinced that, in one respect at least, things are looking up.

Like its communist forebears, present-day Russia, Ukraine and neighbouring countries are among the world's most inefficient users of energy. Yet Mr Jamet, director of the energy efficiency unit at the European Bank for Reconstruction and Development (EBRD), believes the benefits of energy efficiency are at last beginning to be appreciated.

Some of the former Soviet satellite economies, such as Hungary and Poland, have made considerable progress in improving energy efficiency (although even these countries still lag behind the western economies).

Mr Jamet says the need to follow this example is well understood at high levels across the old Soviet Union. Furthermore, he says, the practices promoted by his unit in the former east block offer lessons for other developing regions.

Energy efficiency has come in from the cold in the former communist nations as they move towards charging a price for energy that more closely reflects its costs. Consumers will face crippling power bills unless they can adapt, so real economic improvement without energy efficiency gains is scarcely feasible.

Moreover, these states are committed to limiting emissions of carbon dioxide and other gases believed to contribute to global warming, and in the longer term energy efficiency will play an essential role in reaching those targets.

Earlier this year, the EBRD signed its first deal for an energy service company (Esco) in a former Soviet state. The project, in Ukraine, follows several years of success with such schemes in Hungary and other eastern European countries.

Under what is known as "demand-side management," Escos undertake to manage and upgrade the delivery of energy needs of a given concern such as a school, hospital or factory.

They then implement efficiency improvements, and take a proportion of the revenue saved, while the customer benefits from reduced energy bills. Levels of risk are low, rates of return attractive, and energy savings of 25 per cent, and often much more, are achieved fairly easily.

The concept is simple, but effective execution depends on specialist expertise in efficiency management and a willingness on the part of the financial backers to adopt an approach often unfamiliar to those who are used to backing large power generation – or "supply side" projects.

Energy efficiency will play an essential role in reaching targets to limit greenhouse gas emissions

The Ukraine project, named Ukresco, is to be almost totally financed with a loan of around $30m from the EBRD.

This is a first for the bank, which has sought to provide only about a third of the total debt and equity package to Escos and other energy efficiency initiatives, with the rest coming from private sources. "You cannot find sophisticated private investors in the Ukraine with an understanding of the Esco concept," explains Mr Jamet. But he is "confident" that, unless the economy melts down completely, within two years western or local companies will recognise the worth of the approach and seek to invest.

In Russia, by contrast, the EBRD aims to follow the pattern that has proved so successful in central and eastern European countries, where the bank provided around a third of the debt and equity package, with the rest coming from private investors.

The EBRD has already signed framework agreements with Honeywell, Landis and Gyr and Compagnie Générale de Chauffe for Escos and renovation of district heating systems in Hungary, the Czech Republic and elsewhere. Mr Jamet believes these companies, as well as Russian ones, will not abandon their interest in doing the same in Russian cities.

"We have now developed an excellent relationship with the [permanent staff at the Russian] Ministry of Energy", a crucial partner in helping to spread awareness of the importance and viability of Escos.

In Ukraine two "very important" projects in this field – entailing $65m in loans and delivering up to 40 per cent savings in energy use – could be signed before the end of the year, he says.

Mr Jamet concedes that the situation in other regions of the world such as Asia, Africa and Latin America is often very different: in many countries there is a "real deficit" in energy production. But he is concerned about an entrenched attitude among the big multilateral institutions which "always give preference to large scale energy production". This needs to change, he says. The problem is that few such organisations have the know-how to finance small-scale demand-side projects.

"What you need [are] dedicated [energy efficiency] team[s]. I have suggested a network...should be established within multilateral development banks, including the World Bank," he says.

Not everyone shares Mr Jamet's enthusiasm for such teams. Vivek Talvadkar, an energy specialist at the International Finance Corporation, the private lending arm of the World Bank Group, agrees that efficiency should be at the heart of energy policy. He says the Group is already supporting Escos; but he does not think a dedicated energy efficiency team is necessarily the only solution. "We may not have one unit that does this. [But] many of our projects do contribute."

For example, more than $230m is being loaned to four demand-side management initiatives in India. In China, the World Bank has funded $85m of the $150m Energy Conservation Project designed to foster new project financing concepts and institutions to promote energy efficiency, and to bolster the energy conservation information programme.

In Brazil, the bank is considering a proposal to fund up to $100m of a $200m project to improve efficiency in the supply and use of energy through the promotion of local Escos. But, stresses Mr Talvadkar, these initiatives and others must be seen in the context of broader reforms that will make the price of energy more accurately reflect its cost.

According to the IFC, this will open avenues for more direct forms of energy efficiency assistance, particularly investments in demand-side measures.

Bernard Jamet: convinced that things are looking up

DAVID BOWEN
WEB SITE INSPECTION

A bland vehicle

LucasVarity makes the site's aims clear; the trouble lies in the execution

Shareholders in LucasVarity – the automotive engineering and aerospace group formed in 1996 by merging US-based Varity and Lucas Industries of the UK – will vote today on whether old Joe Lucas should emigrate to the US, or, to put it more formally, whether its stock market listing should move from London to Wall Street.

If the plan is approved, the company is sure to attract more attention on the internet. But as things stand, that could be a problem. The trouble with corporate sites is usually that they do not know why they exist. LucasVarity has not fallen into this trap: its aim, clear from the home page with its simple "mission statement", is to tell the world what it does. It is a corporate brochure; nothing wrong with that, because many in the US who will need to know about the company. The home page also promises coverage of other important functions; recruitment and investor relations, for example.

The trouble lies in the execution. This site is full of good ideas badly done. The design is understated (good) but bland (bad). It uses big print – a mercy for those over a certain age – but with no finesse. Much of the text is plain crass. The company's aims are to "develop and reward our people," "delight our customers", and "produce superior and sustainable returns for our shareholders". Surely not...

Most serious, it shows every sign of being cobbled together by people without the power to bang heads together. It tells you about car brakes, then sends you to a (US) site called Light Vehicle Braking Systems, which has much useful material but absolutely nothing in common with the Heavy Vehicle Braking Systems site. Other divisions only get an extra bit in the main site. Bizarrely, the aerospace recruitment section lists jobs on the main site, but also sends you off to a site that presents the same jobs more flashily.

This is an unco-ordinated site and screams out for senior management commitment.

www.lucasvarity.com
Overall **
Design **
Navigation ***

Now is the time that skiers start to wonder where they can get their next adrenalin fix. There is plenty of ski stuff on the web, but how easy is it to find the resort you want, and book it from the site? Not very.

One of the most comprehensive ski sites, covering Europe and North America, is Emap's *1ski.com*.

It is superbly laid out, with easy navigation and pictures large enough to add interest without slowing the site down. It also has a good newsy feel, and gives the lowdown on 200 resorts, including the price of beer. But despite the late booking facility starting mid-November), this is mainly an information site. Unless you want a late special, there are few clues about booking a holiday in the resort you have identified. Linked to a full-blown booking system, *1ski.com* would be superb. But it's not there yet.

Specialist travel agent Snow Line claims to run "Britain's best web site for skiers and snowboarders". Well, up to a point. Any site that features yellow lettering on a beige background has design problems. Add clashing colours and flashing words, and we have a two-aspirin site that epitomises an all-too-common combination among web designers: technical competence and the visual flair of a bat. There is little information on the resorts, or indeed much to help you choose anything. All of which is a shame, because the central service – e-mail questionnaires that let Snow Line's staff find you a holiday – is a good use of the medium.

Iglu.com enables skiers to find a chalet from a choice of 3,000, and property owners to change their details in a password protected area. It has been busy signing up European resorts so that it will not only have a useful database but an information monopoly. Add a nifty bit of intelligence called "forager" – use a sliding scale to express your preferences (budget/luxury, beginner/expert), and we end up with a site that needs polishing but shows a deep understanding of the medium.

1ski.com
www.1ski.com ****
Snowline
www.snow-line.co.uk **
Iglu
www.iglu.com *****

David Bowen is editor of Net Profit newsletter (www.net-profit.co.uk; info@net-profit.co.uk).

NORMA COHEN
THE PROPERTY MARKET

An Italian trailblazer

The spin-off of Unim raises the possibility of a transformation in the way real estate is owned and managed in the country

Ina, the Italian insurer, listed the shares in its newly spun-off property arm, Unione Immobiliare (Unim), on the Milan Stock Exchange this week, creating the largest listed real estate company in Italy.

With 1.8m sq m of space, almost all in the Rome and Milan office and residential markets, it has assets with an appraised value of L5,511.1bn (£2bn) as of December 31, 1997, according to its chartered surveyors, CB Richard Ellis. The valuation implies an appraisal value at a 12 per cent discount to book value.

The shares began trading on Monday at the L800 set by the Milan Stock Exchange and promptly fell to L766. However, by the close of trade on Wednesday, they had risen to L830.

The spin-off, coming in the aftermath of a protracted property recession in Italy, raises the possibility of a transformation in the way real estate is owned and managed in a country where economic and political conditions have historically distorted its performance.

It is also likely to catch the eye of other European composite insurers who have traditionally been heavy investors in real estate but which expect better investment returns from increasingly liquid equity markets on the continent.

Unim is an entity 85.4 per cent owned by Ina's existing shareholders who will be entitled to free shares.

Ina retains a 14.6 per cent stake in the company and holders of treasury shares qualify for Unim shares, taking the insurer's total stake to 16.3 per cent. Unim says it eventually hopes to find a "strategic" holder of its stake. Analysts at Morgan Stanley, who acted as advisers to Unim, say that the company "has already entered into preliminary discussions with potential international strategic partners in order to acquire expertise in selected areas of its business".

Roughly 1 per cent of shares are to be reserved for a management share option scheme.

Indeed, the ability to create a dedicated, focused management has been as much the rationale for the spin-off as the desire to improve Ina's return on equity.

"The problem was that Ina has been overcapitalised and most of that has been held in the form of property," says Bob Yates, European insurance analyst at Fox, Pitt, Kelton, an investment bank specialising in banking and insurance.

Mr Yates says that the predilection of Italian insurers for property assets has its roots in Italy's historical struggle with inflation. "In the bad old days, Italy was a hyper-inflating country with no equity market and with a corporate bond market that was by definition a junk bond market," Mr Yates says. However, Italy, perhaps more than any other EU member state, has embraced the euro and worked hard to meet the conditions to be among the first entrants to the new Euro currency zone.

That has forced Italy to get to grips with its budget deficit, its inflation rate and its currency. Ina's decision to spin off its property arm "is taking a view on Italian inflation in a post-emu environment," he says.

Paul Bacon, senior partner at Healey & Baker Italy, notes that political conditions have historically distorted property demand, development and rents. Rents on residential properties had been limited to increases of no more than 75 per cent of the prevailing inflation rate and rules limited the ability of owners to sell inhabited residences.

More significantly, state-run pension funds invested their cash in property assets, and, Mr Bacon says, did it badly.

So poor was their performance by the early 1990s, the pension funds were earning annual returns of no more than 1 per cent and Italy's social security system was splitting at the seams. In 1995, the law was changed so that pension funds could only invest in property unit trusts. "The law was changed because principally state-run pension funds demonstrated that they could not get returns out of them," he says. "The concept of active management didn't exist."

A 1994 law has provided enabling legislation for the creation of closed end Italian property funds which will be required to meet the disclosure requirements of the stock exchange and Treasury.

Moreover, investigations in the 1990s revealed the extent of corruption between developers and local planning authorities.

By 1995, he says, even private pension funds had withdrawn from investment in Italian property.

Property values slumped to the point where foreign investors, previously unknown in Italian property, began to get interested. Morgan Stanley, the US investment bank, purchased a L250bn portfolio of non-performing loans from Banca Sao Paulo di Torino while Schroders International Property Trust bought into the Carosello Shopping Centre at Carugate, and others have followed.

But Italy's property market still has an uphill struggle. State-owned companies also helped to distort the property market under government pressure.

Organisations such as Enel and Agip were under pressure to build or buy residential properties to let to workers at subsidised rents. Now that these companies have been privatised, managements have to consider what to do with the real estate assets.

According to Healey & Baker, Enel has assets of L6,000bn, while Italy's Telecoms company has property assets of more than L1,000.

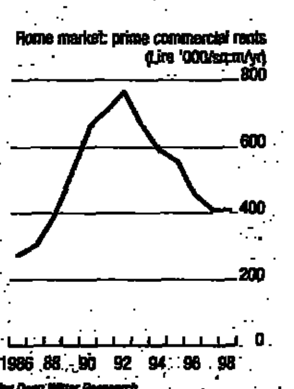
One problem for any reluctant owner of Italian property is that long-term holders will find their capital gains taxed at 37 per cent, sufficient to discourage other insurers from selling holdings quickly. Ina, formerly state-owned, was only able to crystallise its gains because of a one-off exemption from capital gains tax.

French insurers have begun selling holdings, while in Germany, companies such as Siemens are selling real estate assets. When that restructuring is in full swing, Europe will begin to have a genuinely commercial real estate property industry.

Unim's portfolio
1997
by segment (%)

	Book value	Rental revue
Milan commercial	11	10
Rome commercial	28	39
Milan residential	14	11
Rome residential	37	29
Other	10	11

Rome market: prime commercial rents (Lire '000/sq m/yr)



Sources: company; CB Richard Ellis; Morgan Stanley Dean Witter Research

THE PROPERTY MARKET

BUSINESSES FOR SALE

ALPHA ASTIKA AKINITA

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE COMPANY "ATHANASSIOS ZACHARAKIS - COTTON FACTORY A.E.V.E."

PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE COMPANY "ATHANASSIOS ZACHARAKIS - COTTON FACTORY A.E.V.E."

"ASTIKA AKINITA" S.A. (43 Panepistimiou str. 105 64 Athens) under its capacity as special liquidator by virtue of resolution No. 2518/10.07.1998 of the Thessaloniki Court of Appeal, of the incorporated company under the title "ATHANASSIOS ZACHARAKIS - COTTON FACTORY A.E.V.E." and the abbreviated title "NINO A.E.V.E." (henceforth referred to as the "enterprise").

ANNOUNCES

A public call for tenders with sealed, binding offers, for the sale of the total assets of the enterprise under special liquidation by virtue of article 46a, L. 1892/1990.

ACTIVITIES AND BRIEF DESCRIPTION OF THE COMPANY

The company under the title "ATHANASSIOS ZACHARAKIS - COTTON FACTORY A.E.V.E." and the abbreviated title "NINO A.E.V.E. was established by Act No. 20490/23.12.1994 of the Serres notary public Theodora Koutkou-Hatzifotiou. The seat of the company was initially the Municipality of Serres and is currently the Municipality of Thessaloniki.

The objective of the company according to its article of association is the pursuit of profitable activities by 1. The establishment of a cotton seed processing factory in the Drama Industrial Zone. 2. The purchase of seed-bearing cotton, processing (ginning) cotton and sale of the finished product. 3. Ginning on behalf of third parties. 4. Production of fibre in the factories of third parties or in a textile unit to be established by the company and sale of the textiles produced. 5. Processing derivative products by a company unit and sale thereof, or sale thereof in an unprocessed form. The Company has a self-owned site covering an area of 35,000.59 square metres which contains the unit's building installations, covering a total area of 10,615.00 square metres, and the other additional and auxiliary buildings required for its operation. On July 10, 1998, the company came under special liquidation provided by article 46a, L. 1892/1990, by virtue of Decision no. 2518/1998 of the Thessaloniki Court of Appeal, by which "ASTIKA AKINITA" S.A. was appointed special liquidator.

The assets of the "enterprise" include one (1) site, with all its contents, annexes, attributes and additions, with the building complex situated thereon (ginning factory), with all its electrical and mechanical equipment and the machinery installed therein, and all the area it covers in general. This site is located within the Drama Industrial Zone, in the cadastral region of Xiropotamos, Prefecture Of Drama.

INVITES

any interested parties to receive the offer memorandum and submit a sealed, binding offer accompanied by a letter of guarantee by a Bank operating lawfully in Greece, for the sum of one hundred million (100,000,000) drachmas and the contents described in the offer memorandum.

TERMS OF THE CALL FOR TENDERS

1. The public call for tenders will be carried out according to the provisions of article 46a, L. 1892/1990 which was added to the law by virtue of the provision of article 14, L. 2000/91, as amended, modified and applicable with the terms included in the present call for tenders and the terms of the offer memorandum, which interested parties may obtain after submitting a pledge of confidentiality in writing.

2. **In order to participate in the call for tenders, interested parties are invited to deliver a sealed, binding offer in writing by 11:00 Monday, November 30th, 1998 to the Thessaloniki notary public Mrs. Ioanna Bilissi-Carousseis, 11 Tsimiski str., 546 24 THESSALONIKI, tel.: 031-270635.**

3. The offers and the letter of guarantee must be delivered in a sealed, opaque envelope by the interested party in person, or by his authorized representative.

4. The offer must mention clearly the amount offered for the purchase of the "Enterprise" and must not contain any terms, options or vague phrases which might create uncertainty as to the amount or the manner of payment of the sum being offered or other matters related to the sale.

5. Offers delivered after the expiration date will not be accepted and will not be considered. The binding nature of the offers will apply until the award of the sale.

6. The assets of the company and all the secondary fixed of current attributes of which they consist, such as real estate, moveable objects, name, claims, title, rights, etc. will be sold and transferred "as and where they are", i.e. in their real and legal condition and at the place where they are located on the date of signing the contract of sale.

7. The liquidating company and the creditors representing 51% of total claims against the "Enterprise" (para. 1, article 46a, L. 1892/1990 as applicable) are not liable for any legal or real defects or the lack of any attributes of the objects and rights being sold, nor are they liable for any omissions or inaccuracies contained in their description in the offer memorandum or in any correspondence.

8. Interested potential purchasers are obligated, under their own supervision, and by their own means, expenses and personnel, to investigate and acquire a personal perception of the objects being sold, and to mention in their offer that they are fully informed as to the real and legal status of the assets under sale.

9. The liquidator and the creditors mentioned in para. 7 above are entitled, according to their own judgement, to reject offers containing terms and options, or the phrases referred to in para. 4 above, regardless of whether they are superior to other offers as regards the amount being offered.

In any case, the creditors are entitled, according to their own judgement, to dismiss, offers containing terms or conditions, regardless of whether such offers are superior to others, or to consider such terms as non included, in which case the offer remains binding as to its other contents (article 2, para. 3, L. 2302/1995).

10. In the event that highest bidder violates his obligation to come forward and sign the relevant contract within ten (10) days from the invitation by the liquidator and observe the obligations arising from the present announcement, the letter of guarantee is forfeited in favour of the liquidating company, towards covering all its expenses of any type and its services, as also any direct or indirect damages, without the necessity of proving specific damage, and as a penal clause in favour of that company, deemed as having been submitted with the offer, so that the guarantee may be collected from the issuing Bank. The letters of guarantee will be returned, following the payment by the successful bidder of the amount agreed and his fulfilment of all obligations arising from this announcement and the offer memorandum and following the transcription of the transfer contract and the payment order.

11. **The seals of the offers will be broken by the notary public mentioned above at her office, at 12:00 on Monday, November 30th, 1998.**

12. The successful bidder will be the party whose offer will be judged by the liquidator and approved by the creditors mentioned in para. 7 of the present, as being the most advantageous for the "Enterprise" creditors.

13. The liquidator will notify the successful bidder in writing of his obligation to come forward to the place and at the time determined in the notification, for signing the contract transferring the assets, according to the terms of the offer and any improved terms that may be indicated by the creditors and agreed with the highest bidder.

14. All expenses and costs connected to the procedure of the various stages of the special liquidation, from the placement of the company under special liquidation up to the transcription of the acts certifying that the highest bidder has fulfilled his obligations, after the award and transfer of the company's assets (such as taxes, stamp duty, notary public's fees, registrar's fees, V.A.T., publications of the overall special liquidation procedure, etc.) will burden the highest bidder exclusively, as described in detail in the offer memorandum.

15. In the event of part of the purchase amount being on credit, the highest bidder will be under the obligation to provide any guarantee requested by the liquidator according to his own exclusive judgement, and will bear all *related expenses and fees for the formation of such guarantees and their cancellation.*

16. The liquidator and the creditors will not bear any responsibility or liability against those who will participate in the tender as regards the evaluation of the offers, their recommendation of the successful bidder, any decision for repetition or cancellation of the tender and any other decision relevant to the procedure and realization of the tender.

17. The present announcement has been drafted in the Greek language and translated into the English language. In every instance however, the Greek text will prevail.

Interested parties may collect offer memoranda and receive other information from Mr. Christos Agathopoulos and Mr. Garassimos Christopoulos, 43 Panepistimiou Street, Athens 105 64, telephone nos: 326 6111 and 326 6110, fax no: 326 6118.

CONTRACTS & TENDERS

CROATIAN NATIONAL BANK

Zagreb, Trg Burze 3, Croatia

hereby declares

Annulment of International Invitation to Tender with Previous Pre-qualification procedure for Special Audit of Certain Banks in Croatia, published in Financial Times on 2 October 1998.

ETBA Finance

ECONOMIC & FINANCIAL SERVICES S.A. (formerly GREEK EXPORTS S.A.)

ANNOUNCEMENT

OF A SECOND INTERNATIONAL PUBLIC AUCTION FOR THE SALE OF THE FLOATING DRYDOCK D/D "AVLIS"

[illegible]

ANNOUNCES

a second international public auction with sealed, binding offers for the sale of the floating drydock D/D "AVLIS".

Summary data on the floating drydock for sale

[illegible]

Lifting capacity	15,000 tons	Height above the floor	14.8 metres
Built in	1976	Depth below measurement deck	3.7 metres
Length overall (LOA)	195.0 metres	Maximum draught	8.5 metres
Length along central keel blocks	180.0 metres	Construction	Steel
Width overall (WOA)	41.5 metres	Built in	Germany
Width inside	33.5 metres	By	GHH

Terms of the Announcement

[illegible]

ETBA

Hellenic Industrial Development Bank S.A.

CALL FOR TENDER SUMMARY

SECOND PUBLIC INTERNATIONAL TENDER FOR THE SALE OF THE FIXED ASSETS OF HALKIS SHIPYARD COMPLEX

[illegible]

INVITES TENDERS

with sealed binding offers for the sale of the fixed assets of the SHIPYARD.

BRIEF DESCRIPTION OF THE FIXED ASSETS OF THE SHIPYARD

[illegible]

a. a plot of land of approximately 430,000 sq.m.

[illegible]

d. floating crane (EVRIPOS) with a lifting capacity of 100 tonnes.

e. two cranes with a hoisting capacity of 50 tonnes each and five smaller ones.

f. two tug boats (TELAMON and LOKREFS).

[illegible]

h. infrastructure and facilities.

[illegible]

TERMS OF THE CALL FOR TENDER

[illegible]

CONTRACTS & TENDERS

Invest in Romania!

STATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, Division for Privatisation 2 is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997 approved by the Law no.44/1998 and the Government Decision 55/1998, modified and completed with Government Decision 361/1998, a 57.8174% of the issued share capital of Trading Company ARTROM S.A., Slatina.

- ☐ Registered Office: Slatina, Str. Sos. Draganesti, Nr. Km. 93, Jud. Olt.
- ☐ Fiscal Code: R 1510210.
- ☐ Registration no. at Commercial Register Office: J 28/09/1991.
- ☐ *Issued stock capital, according to the latest records* at the Commercial Register Office: 141,361.850 thousand ROL.
- ☐ Turnover in 1997: 165,312.317 thousand ROL.
- ☐ Net profit in 1997: 140,613 thousand ROL.
- ☐ Main scope of activity: manufacturing and trading of non welded tubes for machine building, bearings and oil industry and import-export activity.

The share ownership structure is as follows:

	%
State Ownership Fund	57.8174
Financial Investment Company	24.9984
Share owners through mass privatisation	0.9487
Share owners through public offer	16.2268
Shares assigned to the manager	0.0087

The selling offer price is of 25,000 ROL/share and the value for shares parcel put for sale is of 81,731,775,000 ROL.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs., till the precedent day of the offers submission, inclusively, at a price of **50,000,000 ROL** payable in account no. **2511009809 00224** opened at Romanian Bank for Development - Bucharest Branch (BRD-SMB).

Further information about the company's privatisation may be offered by S.O.F.'s INTERNET SITE at the address www.sof.ro. or at the phone 040-01-314.62.81, fax 040-01-310.16.92 Mr. Antoniu Pompiliu Stanescu.

In order to participate in the negotiations it is compulsory buying the PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:
- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. **2,451,953,250 ROL** payable at Romanian Bank for Development - Bucharest Branch (BRD-SMB) in account no. **251100980900313**. Foreign natural and legal persons will pay the PRESENTATION FILE and the participation guarantee into account no. **251100000242300008** opened to BANCOREX, in USD at the exchange rate communicated by the National Bank of Romania. Bidders may instruct the bank where they hold their main account to release an unconditional bank guarantee valid for **180 days**, after the submitting offer.

Natural/legal foreign persons may make the payment for the SELLING-BUYING contract in convertible currency at the exchange rate transmitted by NATIONAL ROMANIAN BANK **at the date of signing for the final Protocol for closing of the direct negotiation.**

Only bidders that prove they acquire the Presentation File may submit their PURCHASING OFFER.

Bidders should submit the PURCHASING OFFER and the documents stipulated in Government Decision no. 55/1998, article 27, stipulated in Section C of the PRESENTATION FILE and BUYING OFFER, inclusively BUSINESS PLAN, to the State Ownership Fund, Offers Division at the above mentioned address, *in a sealed envelope, prior to 20th of January, 1999, 10th hrs local time.* The opening of the offers will take place in the same day (20th of January, 1999) at 12.00 hrs local time in the presence of bidders.

This advertisement does not constitute an offer of securities within the meaning of the UK Financial Services Act 1986 and does not constitute a solicitation of an offer in any jurisdiction where such solicitation would be prohibited. The shares offered for sale are issued according to the Romanian legislation and their trading is governed by the Romanian law, subject to the scrutiny of the relevant Romanian regulatory authorities.

BUSINESSES FOR SALE

for sale

MIDLANDS ENGINEERING COMPANY

Specialising in Mechanical Handling

Turnover £4.5 million

PBT £360,000

Contact: JE Seatson
Brook Corporate Finance Limited
33 Great Charles Street Birmingham B3 3JN
Telephone: 0121 625 9003

Brook Corporate Finance is regulated by the Securities & Futures Authority Ltd and a Member of the London Stock Exchange.

N.J. Miller of Kingston Smith & Partners appointed Administrator 2nd November 1998

THE BERKELEY PLAYHOUSE CLUB LIMITED - IN ADMINISTRATION

BUSINESS AND ASSETS FOR SALE

- Private Members Club
- Premises in Mayfair
- 25 year lease
- Restaurant and cabaret

CONTACT:
NICK MILLER
OR LEE PRYOR
OF KINGSTON SMITH & PARTNERS
ON TEL: 0171 566 3673
FAX: 0171 566 4021

KINGSTON SMITH & PARTNERS

CONTRACTS & TENDERS

AUCTIONS

By Order of Hussmann Manufacturing

SHORT NOTICE SALE BY PRIVATE TREATY

REMAL / NORDSON ELECTROSTATIC POWDER COATING FACILITY.
Work Envelope 12' x 3' x 4'6",
Variable Speed to 6/Min, Max Component Weight 30Kg

For further detail, please contact John Cowing

HENRY BUTCHER

Tel: +44 (0)171 405 8411
Fax: +44 (0)171 405 9772
Email: henry.butcher.auctions@dial.pipex.com

PUBLIC NOTICE

[illegible]

LEGAL NOTICES

[illegible]

LEGAL NOTICES

[illegible]

EQUITIES

Interest rate cuts fail to inspire

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

More interest rate cuts were announced in Europe yesterday, but optimists who had hoped for a downward move in core euro-zone rates were disappointed.

The decision by the Bundesbank to leave interest rates unchanged had been widely expected by analysts, despite the hopes of some traders and the pressure exerted by the new German government.

But there were rate cuts in two countries that are not planning to join the first wave of the single currency, Britain and Denmark, although neither move did anything to help their respective equity markets.

There was a distinctly downbeat mood across the continent and much of Wednesday's stock market gains evaporated.

The FTSE Eurotop 100 index fell 58.7 or 2.3 per cent to 2,495.47, while the broader Eurotop 300 fell 23.57 to 1,083.53. The FTSE Ebloc 100 of stocks in the core eurozone dropped 14.51 to 907.8.

One investment house warned that the market's rally may have got ahead of itself. "The current predominance of centre-left governments in western Europe is not likely to lead to an explosion of deficit spending, but within euroland the European Central Bank will have to act as a policeman, making interest rates higher, the currency stronger and growth slower than need be the case," says the European team at BT Alex Brown.

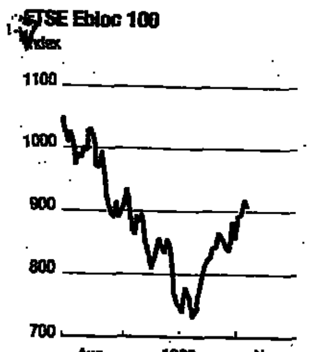
"From the point of view of markets, the main danger is of slower earnings growth. This is one factor behind our belief that continental European markets are overvalued at current levels."

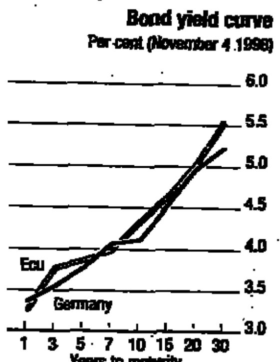
At the sectoral level, healthcare was the worst performer, with some US regulatory concerns forcing Nycomed Amersham down Ecu 0.40 to Ecu 5.66.

In engineering, which fell 3 per cent, shares in MAN fell Ecu 18.90 to Ecu 250.18 on poor sales figures.

Breweries lost much of the ground gained on Wednesday, falling 4 per cent, with Scottish & Newcastle off Ecu 0.80 at Ecu 10.18.

Some of the market's favoured sectors during the correction showed their mettle once again. Utility stocks were flat, while tobacco was the only sector to manage an advance on the day.





Source: FTSE International, Interactive Data/FT Information

THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.360	96.380	+0.005	96.390	96.360	490	9962
Mar	96.615	96.640	+0.010	96.640	96.605	240	6143
Jun	96.660	96.690	+0.010	96.680	96.660	79	2169
Sep	96.660	96.690	+0.005	96.660	96.660	15	1263

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
96500	0.015	0.035	0.210	0.240	0.135	0.155	0.070	0.100
96625	0	0.010			0.245	0.255		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2527.0	2508.0	-70.0	2542.0	2513.0	191	6921
Mar	-	2516.5	-70.0	-	-	0	1060

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2475 C	2475 P	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2575 C	2575 P	2600 C	2600 P	2625 C	2625 P	2650 C	2650 P
Nov	121	40	103	45	88	57	73	67	59	78	47	92	37	107	28	134
Dec	171	83	156	85	119	110	124	111	87	133	73	160	54	191	37	226

Est vol total 235. Prev day's open interest total: 6,263. Premiums shown are based on settlement prices.

OTHER INDICES

	Nov 5	Nov 4	Oct 3	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2984.80	3051.54	2972.82	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	2975.70	3030.34	2952.23	3658.48	2419.23	3658.48	2419.23
MSCI Europe	(u)	1113.07	1088.88	1315.55	906.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 05 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1083.53	-2.13	-23.57	2.53	29.71	1120.21
FTSE Eurotop 100	2495.47	-2.30	-58.70	2.55	36.85	893.31
FTSE Ebloc 100	907.80	-1.57	-14.51	2.34	14.29	920.71
FTSE Eurotop 300 Regions						
Eurobloc	1140.78	-1.64	-18.98	2.22	20.76	1164.27
UK	1003.80	-2.72	-28.05	3.00	48.38	1068.07
Europe Ex-Eurobloc	1036.44	-2.65	-28.22	2.86	37.52	1083.33
Europe Ex-UK	1129.65	-1.83	-21.10	2.30	19.29	1150.08
FTSE Eurotop Industry Sectors						
RESOURCES	858.08	-2.88	-25.43	3.30	27.67	896.67
Extractive Industries	798.55	-1.51	-12.24	4.26	14.54	815.42
Oil, Integrated	827.78	-2.94	-25.08	3.26	28.16	848.20
GENERAL INDUSTRIES	995.58	-1.97	-20.03	2.81	20.14	1015.55
Construction	937.81	+1.16	+10.73	2.99	11.06	948.51
Building Matls & Merchs	869.85	-1.85	-16.38	2.57	6.96	877.37
Chemicals	846.33	-2.09	-18.11	2.85	17.45	861.26
Diversified Industrials	913.34	-1.66	-15.44	2.60	17.48	929.01
Electronic & Elect Equip	850.88	-1.84	-15.98	1.96	4.89	854.99
Engineering	833.05	-3.00	-25.77	3.93	11.68	843.19
Paper, Pckg & Printing	752.01	-2.74	-21.15	3.13	1.21	752.94
CONSUMER GOODS	1107.28	-2.28	-25.81	1.68	49.50	1170.43
Automobiles	826.77	-1.26	-10.55	3.16	10.25	834.44
Alcoholic Beverages	871.71	-4.01	-36.44	3.02	296.79	1298.59
Food Producers	926.75	-3.10	-29.61	1.82	9.79	935.63
Household Goods & Texts	957.81	-1.93	-18.82	1.99	7.88	984.98
Healthcare	895.58	-6.78	-64.90	1.29	13.51	908.98
Pharmaceuticals	975.75	-1.79	-17.82	1.31	5.27	981.05
Tobacco	1204.48	+0.06	+0.71	4.13	15.88	1221.01
SERVICES	1096.22	-1.96	-21.95	2.14	21.95	1125.73
Distribution	771.51	-1.68	-13.20	2.82	11.37	780.18
Leisure & Hotels	738.65	-3.35	-25.60	3.32	12.27	748.52
Media	948.08	-1.47	-14.10	2.31	10.68	958.18
Retailers, Food	993.34	-1.27	-12.74	2.04	12.84	1006.38
Retailers, General	905.19	-2.22	-20.56	3.45	17.45	920.84
Telecommunications	1009.42	-2.23	-22.98	1.91	13.02	1021.69
Breweries, Pubs & Rests	740.81	-4.01	-30.96	3.56	14.20	752.07
Support Services	932.73	-0.90	-8.48	1.57	9.87	942.62
Transport	917.57	-1.83	-17.12	2.63	16.18	932.40
Information Technology	889.42	-1.73	-15.70	0.41	2.33	891.54
UTILITIES	1384.06	-0.27	-3.81	3.14	55.62	1461.48
Electricity	1043.64	-0.12	-1.23	3.30	26.23	1071.71
Gas Distribution	1129.24	-0.54	-6.10	1.82	93.32	1243.36
Water	978.56	-0.69	-6.79	5.10	38.72	1015.94
FINANCIALS	1148.19	-2.29	-26.89	2.84	27.25	1176.78
Banks, Retail	792.51	-1.89	-15.25	3.68	12.96	803.15
Insurance	894.83	-3.24	-30.00	1.55	11.61	905.43
Life Insurance	1022.76	-1.85	-19.27	1.88	12.98	1036.04
Other Financial	831.85	-1.83	-15.51	2.31	15.95	845.74
Investment Companies	888.62	-3.30	-30.36	1.53	20.66	905.24
Property	676.40	-0.47	-3.18	3.58	16.01	688.83

Further information is available on http://www.ftse.com. © FTSE International Limited 1998. All rights reserved. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. Name change: MERITA A to MERITA.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]					

ALCOHOLIC BEVERAGES · AUTOMOBILES · BANKS RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DISTRIBUTORS · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE INSURANCE · MEDIA · OIL, INTEGRATED · OTHER FINANCIAL · PAPER PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · WATER

Notes

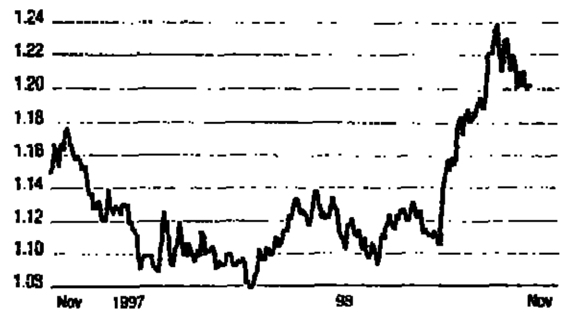
[illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Nov 05	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
[illegible]						

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Nov 05	Fixed rate	Market rate	Diff fr'd value%	Week ago %	Forward rate	Forward fix rate	Diff vs rate v DEM
[illegible]							

BONDS

INTEREST RATE SWAPS

Nov 05	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
[illegible]										

EUROZONE CORPORATE BONDS

Nov 05	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread vs Bmk
[illegible]								

GOVERNMENT BOND SPREADS vs ECU

Nov 05	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
[illegible]						

EUROZONE CREDIT SPREADS vs ECU

Nov 05	S & P rating	Red date	Coupon	Currency code	Spread	Spread chg wk	Spread mth ago
[illegible]							

Simex and HKSE in spat over futures

By Louise Lucas in Hong Kong

The rivalry between Hong Kong and Singapore has resurfaced in a spat over stock index futures. Officials from the Singapore International Monetary Exchange, the city state's futures exchange, were in talks yesterday with their Hong Kong counterparts to try to resolve the issue.

The argument began last month when Simex announced plans to launch a Hong Kong stock index futures contract based on the Morgan Stanley Capital International index. This upset the Hong Kong Stock Exchange, which saw the deal as a means of Simex using Hong Kong data to create competitive products.

Hong Kong and Singapore vie for the role of Asia's leading regional centre. While Hong Kong has the biggest stock market and concentration of banks, Singapore is seen as having the edge on futures products.

Some traders say that edge was further honed after recent curbs introduced in Hong Kong to crack down on speculators. Hong Kong now has more stringent margin and disclosure requirements.

Information vendors have been caught up in the spat. The HKSE said yesterday it would write to all 30 providers of exchange information, drawing their attention to clauses in their contracts that stipulate that exchange data should not be given to clients who use the information to help overseas exchanges launch competing products.

If vendors stop supplying real time stock data for the MSCI, it would be difficult for Singapore's contracts to win over investors.

Gilts recover early losses

GOVERNMENT BONDS

By Paul Clark in London and John Labate in New York

European bond prices ended slightly higher after rate cuts in the UK and Denmark, but markets globally were jolted by the mistaken release of US non-farm payroll data, which sparked sharp swings in US Treasuries.

In Europe, markets appeared to have already discounted most of the impact of the short-term rate cuts announced in the UK and Denmark.

The Bank of England yesterday cut its prime rate by 50 basis points to 6.75 per cent, while Denmark cut its rate by 25 basis points. Germany and France left key rates unchanged.

Traders in the US said parts of the non-farm payrolls report appeared inadvertently on the Bureau of Labor Statistics' web site, a day before their official release today. The bureau was at a loss to explain how this had happened but ordered an investigation.

US Treasury jumped as a result of the error but fell back to trade lower just before the afternoon auction of $10bn 30-year bonds. By early afternoon, the 30-year bond, the benchmark for long-term interest rates, was down $\frac{7}{32}$ to 102$\frac{11}{32}$, sending the yield up to 5.341 per cent.

Among shorter-term issues, the 10-year note was ¾ lower at 99[illegible], yielding 4.802 per cent and the two-year note was unchanged at 99[illegible], yielding 4.449 per cent.

During the late morning session, Alan Greenspan, Federal Reserve chairman, addressed global financial issues in a speech to the Securities Industry Association. Mr Greenspan warned of inaction in global financial matters.

UK gilts recovered earlier losses on the rate cut with the benchmark December future settling up 0.08 at 114.63. Analysts saw the response as evidence that rate cuts of this size had already been priced in. David Coleman, chief economist at CIBC World Markets, said: "This was a surprise only in terms of the timing. Most people expected a 0.25 cut now and another at the beginning of December. The difference is not large."

Short sterling contracts indicated that interest rates were expected to come down faster than previously believed. "The market now expects 0.75 per cent off interest rates over the next three months," said Neil Parker at the Royal Bank of Scotland.

In German bunds, the December 10-year bund future was 0.20 higher in late trading at 112.38.

Valencia offers second euro deal

INTERNATIONAL BONDS

By Khozem Merchant

The Spanish local authority of Valencia came to the market with a E300m issue, its second in the future single currency since June. The three-year quasi-sovereign FRN attracted a pan-European response said officials.

Bankers say Valencia, which accounts for 10 per cent of Spanish gross domestic product, is typical of the municipalities that are expected to step up their presence in the market after January. The issue, which was arranged by Barclays Capital, was priced at a margin of 1.9 basis points over three-month Libor.

Aero-Vodochody, the Czech aerospace company, issued a $300m bond yesterday, but the offer was overshadowed by the downgrade of the Czech Republic by Standard & Poor's. The Czech state was downgraded from single A to single A minus and the seven-year bond was accordingly rated at A minus.

The bond, priced to yield 280 basis points over US Treasuries, tightened by 5 basis points after launch. It had been marketed at a spread of just 250 points. The issue was arranged by Deutsche Bank and CIBC Wood Gundy Oppenheimer.

Aero Vodochody is owned by a consortium led by Boeing, the US group.

Tennessee Valley Authority, a triple A rated borrower, raised its $1bn bond to $2bn after seeing strong demand from Europe and Asia. The add-on was priced at a spread of 63 basis points, in line with where the original offer was trading. This represented a tightening of 2 basis points and it tightened a further 1 point yesterday. Two-thirds of the issue was taken up by investors from Europe and Asia.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Tennessee Valley Authority	2bn	5.375#	99.58R	Nov 2008	0.325R	+65(5¼May08)	Lehman/JP Morgan Secs
DCMT 1. 98-7, Class A(a)	1bn	5.60#	99.50	Nov 2003	-	+111(Aug03)	Morgan Stanley DW
Aero Vodochody	200	7.50	99.405R	Nov 2005	0.50R	+280(Nov05)	CIBC Wood Gundy
D-MARKS							
Bertelsmann Finance	300	4.50	99.688R	Nov 2005	0.35R	+51(6½Oct05)	Commerzbank/Dresdner
National Bank of Hungary(b)‡	250	(b1)	98.62R	Feb 2003	0.30R	-	DG Bank
SWISS FRANCS							
Republic of Argentina(c)	100	7.00	98.60	Dec 2003	2.00	-	CSFB
ITALIAN LIRE							
EBRD‡	125bn	(d)	101.50	Dec 2018	2.00	-	Merrill Lynch Intl
CANADIAN DOLLARS							
GMAC Canada	100	6.00(l)	99.85R	Dec 2003	0.30R	+92(7½Dec03)	CIBC Wood Gundy
EUROS(e)							
Generalitat Valenciat	300	(f)	100.018	Nov 2001	0.125	-	Barclays Capital
NEW ZEALAND DOLLARS							
GECC	100	6.00	101.025	Dec 2001	1.375	-	TD Securities
LUXEMBOURG FRANCS							
WestLB Finance Curaçao	2bn	(g)	101.98	Dec 2008	2.00	-	Banque Paribas Lux

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Discover Card Master Trust. Legal maturity: 16/5/06 Av life: 5 yrs. a1) Class B: $52.63m, 5.1 yrs, priced later Treasuries +150bp area. b) Fungible with DM1bn. b1) 3-mth Libor +37½bp. c) Fungible with SFr200m. d) Structured. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) 3-mth Libor -2bp. g) 4% in yrs 1-5, then 6%. l) Long 1st coupon.

Liffe plans talks with potential partners

By Nikki Tait in Chicago

The London International Financial Futures and Options Exchange, the UK-based future exchange, will spend the next two to three months talking to a wide range of potential partners in the US and Europe, with a view to disseminating its automated trading system, known as Liffe Connect, according to Brian Williamson, its new chairman.

Mr Williamson stressed that discussions and possible negotiations would not be limited to other existing exchanges, but rather extend to network providers, software houses, other clearing organisations, and "quasi-exchanges" or organisations running trading engines.

He said Liffe "might end up doing a deal with an exchange", but stressed this was neither the only, nor necessarily the preferred, route. He made his comments in Chicago, but said no significance should be read into this.

The Chicago exchanges are trying to make their own decisions about how to cope with the shift to more electronic trading. The Chicago Board of Trade has plans for an alliance with the German-Swiss Eurex exchange, while the Chicago Mercantile Exchange has a technology link with France's Matif.

Mr Williamson declined to name any of the potential partners on Liffe's list.

Asked if he could see Liffe launching US contracts, Mr Williamson said that Liffe Connect was designed in the short term for Liffe's own existing contracts. However, he acknowledged that, over the longer term, all exchange franchises would become "less clear".

EMERGING MARKET DEBT UPTURN SEEN

Sovereign issuers may be tempted

By Jeremy Grant

A mild recovery in emerging market debt in recent weeks has raised the prospect that more sovereign borrowers could be tempted to return to the bond markets for the first time in months.

However, bankers say that the appetite for emerging market risk will remain fragile as long as there are concerns over the health of Group of Seven economies and further "mini-crises" in some emerging countries.

Only the bravest developing countries are likely to step forward, in spite of growing pressure to finance their budget deficits.

"The judgment at the moment is that of the high-risk, high-return markets the US high-yield sector is now open, and that there are customer flows to absorb the issuance. In emerging markets we're not quite there yet," said Richard Gray, at Bank of America.

Market turmoil after Russia's partial default in August sparked the cancellation of borrowing plans by a handful of sovereigns that had been preparing plans for bond issues – principally Malaysia, Thailand, South Korea and Brazil.

However, yield spreads on emerging market debt have narrowed since then, enabling some borrowers to return. Argentina has repeatedly taken advantage of sharply narrowing yield spreads in the past fortnight.

The J.P. Morgan Emerging Market Bond Index (EMBI), which tracks the performance of a basket of emerging market bonds in the secondary market, was showing yields at an average of 1,705 basis points over US Treasuries in early September. Yesterday, the spread was 1,079 basis points.

However, bankers say some countries that face heavy domestic debt refinancing schedules may not be able to wait much longer for spreads to narrow further.

Pressure is growing on them to borrow abroad as they are unlikely to be able to keep borrowing domestically without paying punitively high interest rates.

Turkey, for example, will have to find $1bn a week by the first quarter of next year to refinance its domestic debt market, bankers say. It is not clear to what extent it will be able to rely on debt roll-overs by local banks.

The country is in talks with banks about a sovereign bond, possibly D-mark denominated. "There's a limit to how much they can tap the domestic market. That's why they're so eager to tap the [international] markets," said one banker.

The next test is likely to be whether the Brazilian congress passes a series of crucial economic and financial reform measures. There are also concerns over the possibility of Russia defaulting on its external debt.

"The comfort that we're feeling right now suggests that we could have some [borrowers] come back. But the recovery is so fragile that any accident could shatter the equilibrium," said Amer Bisat, at Salomon Smith Barney.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 5	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.42
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.97
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.05
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.25
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.96
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.38
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+0.71
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.39
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.79
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.51
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.33
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.35
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.99
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.46
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.38
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.02
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.88
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.30
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.47
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.74
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.68
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.73
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.78
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.69
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.26
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.18
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.56
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.77
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.95
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.89
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.36
New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.67
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.07
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+3.35
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.26
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.56
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.55
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.41
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.54
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.22
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.81
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.64
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.98
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.77
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.79
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.56
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.70
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.34
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.53
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.14
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0.97
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.24
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.52

London closing. * New York mid-day. Yields: Local market standard. Annualised yield basis. Yields shown for Italy include withholding tax at 12.5 per cent payable by nonresidents. Source: Interactive Data/FT Information

10 YEAR BENCHMARK SPREADS

Nov 5	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.12	+1.01	-0.38
Austria	4.32	+0.21	-0.42
Belgium	4.41	+0.30	-0.33
Canada	5.13	+1.02	-0.39
Denmark	4.62	+0.51	-0.12
Finland	4.53	+0.42	-0.21
France	4.26	+0.15	-0.48
Germany	4.11	-	-0.61
Ireland	4.43	+0.32	-0.31
Italy	4.55	+0.44	-0.18
Japan	0.89	-3.22	-3.85
Netherlands	4.23	+0.12	-0.51
New Zealand	5.61	+1.50	+0.87
Norway	5.57	+1.46	+0.83
Portugal	4.53	+0.42	-0.21
Spain	4.56	+0.47	-0.16
Sweden	4.64	+0.53	-0.10
Switzerland	2.72	-1.39	-2.02
UK	[illegible]	[illegible]	+0.28
US	4.73	+0.62	-
ECU	4.33	+0.22	-0.41

Source: Interactive Data/FT Information. London closing, * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Nov 5	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	89.4128	10.90	+0.20	-0.07	+6.54
Poland	07/04	7.125	BBB-	104.0098	6.25	+0.04	-0.57	+1.81
Russia	06/07	10.000	CCC-	22.4967	48.30	+0.90	-8.52	+43.63
LATIN AMERICA								
Argentina	09/27	9.750	BB	86.8450	11.30	+0.08	-0.26	+6.05
Brazil	05/27	10.125	BB-	71.3082	14.30	+0.13	-2.12	+9.06
Mexico	09/26	11.500	BB	108.1185	10.60	+0.01	-0.76	+5.58
ASIA								
China	07/08	7.750	BBB+	105.7709	6.75	-0.05	-1.53	+2.16
Philippines	10/16	8.750	BB+	88.1616	10.20	+0.65	-2.19	+5.25
Thailand	04/07	7.750	BBB-	97.0137	9.31	+0.10	-2.44	+4.64
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB	103.7371	6.71	+0.20	-0.45	+2.38
South Africa	10/06	8.375	BB+	99.1417	10.45	+0.10	-2.06	+5.88
Turkey	09/07	10.000	B	88.1624	12.35	+0.07	-2.05	+7.58
BRADY BONDS								
Argentina	03/23	5.750	BB	70.1250	9.04	+0.10	-0.35	+3.90
Brazil	04/14	5.000	BB-	83.1209	13.10	+0.08	-0.49	+8.20
Mexico	12/19	6.250	BB	76.2451	8.73	+0.11	-0.31	+3.70
Venezuela	03/20	6.750	B+	67.2840	10.66	-0.03	-0.10	+5.60

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.84	109.08	-0.04	109.09	108.70	68,833	98,781

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
107	2.14	-	-	0.06	-	-
108	1.27	-	-	0.19	-	-
109	0.58	-	-	0.50	-	-
110	0.19	-	-	1.11	-	-

Est. vol. total, Calls 8,070 Puts 1,686 Previous day's open int., Calls 27,188 Puts 35,740

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.20	112.34	+0.01	112.20	112.20	1	4272
Mar	-	112.70	+0.03	-	-	0	0

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.02	112.04	-0.15	112.44	112.01	289,324	723,854
Mar	112.64	112.39	+0.03	112.73	112.50	1,506	26,268

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
11200	0.74	1.18	1.49	0.40	0.48	0.79
11250	0.42	0.89	1.21	0.58	0.69	1.01
11300	0.24	0.65	0.97	0.90	0.95	1.27

Est. vol. total, Calls 600 Puts 300. Previous day's open int., Calls 5706 Puts 4830

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107.82	107.84	-0.03	108.03	107.81	107,789	273,929
Mar	107.68	107.62	+0.06	107.74	107.68	2,522	8,577

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110.34	110.60	+0.11	110.68	110.25	14651	52125
Mar	110.48	110.59	+0.11	110.48	110.47	20	10

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Jan	PUTS Dec	PUTS Jan
11050	0.63	0.91	0.53	0.82
11100	0.40	0.68	0.80	1.09
11150	0.24	0.49	1.14	1.40

Est. vol. total, Calls 0 Puts 200. Previous day's open int., Calls 718 Puts 2453

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	113.90	114.07	-	114.20	113.90	28,795	51,335
Mar	-	113.47	-0.01	-	-	-	-

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	107.97	-	-	-	0	1683
Mar	-	108.12	-	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.30	114.63	+0.08	114.82	114.25	41010	116953
Mar	-	114.83	+0.09	-	-	0	0

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
11450	0.95	1.56	1.98	0.82	1.23	1.65
11500	0.71	1.31	1.73	1.08	1.48	1.90
11550	0.51	1.09	1.50	1.38	1.76	2.17

Est. vol. total, Calls 1601 Puts 898. Previous day's open int., Calls 49995 Puts 22952

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	128-21	127-18	+0-30	127-30	128-02	401,245	589,579
Mar	126-08	126-25	-	127-17	125-26	11,570	130,277
Jun	-	126-25	-	-	-	342	2,975

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	138.34	138.45	-	138.45	138.30	932	n/a
Mar	-	137.71	-	-	-	0	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	102.80	103.10	-0.20	102.85	102.80	21	327

US CORPORATE BONDS

Nov 4	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	105.9215	5.43	+0.09	+0.49	+0.90
NY Tel	08/25	7.00	A+	99.8819	7.00	+0.04	+1.16	+1.69
CWE	05/08	8.00	BBB	112.6081	6.22	+0.08	+0.58	+1.34
FINANCIALS								
GECC	05/07	8.75	AAA	119.9095	5.76	+0.09	+0.62	+0.88
Banc One	08/02	7.25	A	104.6280	5.84	+0.11	+0.85	+1.31
CNA Fin	01/18	6.95	A-	93.5536	7.59	+0.02	+0.69	+2.28
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1201	5.89	+0.05	+0.47	+1.61
Wal Mart	05/02	6.75	AA	104.8810	5.21	+0.10	+0.72	+0.68
Dayton Hud	06/21	9.70	BBB+	129.5032	7.06	+0.03	+0.80	+1.75
AGENCIES								
FHLMC	04/07	7.14	N/A	110.5493	5.55	+0.13	+0.82	+0.67
SLMA	03/00	7.50	N/A	103.1208	5.05	+0.13	+0.49	+0.64
FNMA	02/18	8.95	N/A	133.4928	5.89	+0.08	+0.70	+0.68
FFCB	06/06	8.95	N/A	121.1309	5.49	+0.13	+0.78	+0.61
HIGH YIELD								
Stone Cont	02/01	9.88	B	99.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	86.2500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8	One month	-	Two year	4.32
Broker loan rate	6¾	Two month	-	Three year	4.43
Fed.funds	5½	Three month	4.51	Five year	4.37
Fed.funds at intervention	-	Six month	4.52	10-year	4.73
		One year	4.37	30-year	5.27

INTERNATIONAL BONDS

Nov 5	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	109.7000	4.33	-0.01	+0.21	+0.11
Spain	01/07	5.750	AA	109.1000	4.39	-0.01	+0.23	[illegible]
Philip Morris	03/04	5.375	A	103.9000	4.53	+0.02	+0.05	[illegible]
Finland FRN	08/02	3.531	AA	100.5812	3.10	-	+0.13	-0.56
EURO FFR								
Austria	01/04	5.500	AAA	107.2400	3.93	-	+0.09	+0.13
Abbey Nat	02/04	6.000	AA	109.1100	4.04	+0.01	+0.18	+0.24
Cred Foncier	02/04	9.125	A	122.4000	4.28	-0.01	+0.14	+0.48
3CIF FRN	12/01	3.617	AA-	99.9064	3.47	-	+0.12	-0.08
EURO LIRA								
EIB	02/07	7.000	AAA	117.9100	4.37	-	+0.13	-0.07
Abbey Nat	02/02	6.800	AA	108.5700	3.95	-	-	+0.09
Walt Disney	08/00	8.625	A	107.0100	4.03	-	-0.13	+0.31
EIB FRN	03/01	4.743	AAA	100.0779	3.49	-	-0.08	-0.24
EURO £								
EIB	12/07	7.625	AAA	114.1682	5.59	-0.03	+0.03	-0.61
Dresdner Bk	12/07	7.750	AA-	105.7138	6.88	-0.03	+0.37	+1.90
British Gas	03/00	7.625	A+	101.6555	6.30	-0.02	-0.20	+0.98
Abbey Nat FRN	02/02	7.900	AA	99.9770	5.07	-	-0.02	+0.06
EURO $								
EIB	04/07	7.250	AAA	112.9680	5.30	-0.05	+0.34	+0.63
ABN Amro	06/07	7.125	AA-	105.3027	6.30	-0.08	+0.48	+1.63
Quebec	01/07	7.000	A+	108.2911	5.72	-0.06	+0.42	+1.05
Citicorp FRN	02/04	5.750	A+	97.0102	6.42	-0.07	+0.32	+1.98
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.5120	5.45	-0.03	+0.28	+0.14
Toronto	05/04	8.500	AA+	114.5159	5.39	-0.03	+0.27	+0.08
Bell Canada	07/99	10.625	A+	103.5271	5.09	-	+0.05	+0.96
Deutsche B FRN	09/02	5.875	AA+	101.5542	5.42	-0.03	+0.26	+0.31
EURO YEN								
World Bank	03/02	5.250	AAA	116.2756	0.37	-0.05	-0.12	-0.18
Spain	03/02	5.750	AA	117.7182	0.44	-0.05	-0.04	-0.11
Cred Foncier	08/02	4.750	A	114.0796	0.91	-0.05	-0.04	+0.36
Italy FRN	07/99	0.461	AA	100.0887	0.17	+0.17	+0.17	-

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Thu Nov 5	Day's change %	Wed Nov 4	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	121.89	0.04	121.85	2.55	8.25
2 5-15 years (20)	171.87	0.06	171.78	3.30	8.23
3 Over 15 years (4)	222.58	-0.16	222.93	4.71	8.20
4 Irredeemables (4)	297.56	-0.10	297.84	5.15	9.67
5 All stocks (45)	163.43	0.00	163.42	3.30	8.49

UK Indices

	Low coupon yield Nov 5	Nov 4	Yr. ago	Medium coupon yield Nov 5	Nov 4	Yr. ago	High coupon yield Nov 5	Nov 4	Yr. ago
5 yrs	5.03	5.04	6.75	5.08	5.09	6.87	5.05	5.05	6.89
15 yrs	4.87	4.88	6.63	5.03	5.03	6.61	5.04	5.04	6.66
20 yrs	4.83	4.82	6.63	5.02	5.01	6.57	5.04	5.04	6.65
Irred.†	5.10	5.10	6.65						

Index-linked

	Thu Nov 5	Day's change %	Wed Nov 4	Accrued interest	xd adj. ytd		Inflation 5% Nov 5	Nov 4	Yr. ago	Inflation 10% Nov 5	Nov 4	Yr. ago
6 Up to 5 years (2)	225.16	0.16	225.80	1.75	4.26	Up to 5 yrs	2.32	2.36	3.23	1.82	1.66	2.54
7 Over 5 years (9)	244.80	0.38	243.95	1.30	3.65	Over 5 yrs	2.33	2.36	3.14	2.15	2.17	2.56
8 All stocks (11)	241.24	0.35	240.40	1.34	3.40							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 05	Nov 04	Nov 03	Nov 02	Oct 30	Yr ago	High*	Low*
Govt. Secs. (UK)	110.03	110.84	111.39	110.46	110.53	99.59	112.89	93.31
Fixed Interest	148.12	148.20	149.26	148.51	148.56	132.13	151.77	115.52

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Sterling fights back from big rate cut

MARKETS REPORT

By Alan Beattie

Sterling bounced back from a sharp drop yesterday after the Bank of England's monetary policy committee unexpectedly cut 50 basis points off its repo rate.

Initial reaction to the cut from 7.25 per cent to 6.75 per cent, a larger reduction than the central expectation of 25 basis points, drove sterling down two pfennigs against the D-Mark and a cent lower against the dollar.

But buying around the $1.65 level pushed sterling back up and it finished the day slightly higher against the dollar at $1.662, up from $1.656 the previous day. The pound also recovered against the D-Mark to finish less than a pfennig down at DM2.756.

The D-Mark rose against the dollar as the Bundesbank, as most but not all had expected, left interest rates unchanged. The currency ended European trading at DM1.658, up from DM1.669 on Wednesday.

■ The pound's resilience appeared to reflect a market view that the cut indicated a willingness to move in 50 basis point changes, rather than a markedly different future path for UK interest rates.

This was despite the Bank of England's statement, issued along with the decision, that they had revised down their forecast for growth in 1999 and inflation over the next two years.

Short sterling contracts gained slightly at the front end, the December 1998 contract settling 6 basis points higher at 93.37, but the implied interest rate profile for 1999 remained broadly unchanged.

The future market continues to discount a cut in interest rates of only around 100 basis points from the current level of 6.75 per cent by the end of 1999.

"The short sterling reaction was not huge," said Peter von Maydell, senior currency strategist at Credit Suisse First Boston in London. "The CBI [survey] numbers would imply a more aggressive easing, certainly given policy reactions in previous economic cycles."

Mr von Maydell said that there had been "a lot of interest to buy the dips" in sterling recently. Given the large number of short positions taken on sterling in the past two months, it was not surprising to see the currency rebounding from weak data and interest rate cuts, he added.

Jim O'Neill, chief currency economist at Goldman Sachs in London, said that he thought interest rates would fall more quickly than the market expected. "Inflation is in serious danger of undershooting the target," he said.

But for sterling to move significantly, there would need to be a change in expectations of future interest rates.

"We envisage UK interest rates falling to around 5 per cent by the end of next year, and sterling depreciating to around DM2.50 against the D-Mark by the middle of the year," he added.

■ Denmark again trimmed its official interest rates by 25 basis points yesterday, the third cut in a month. High levels of currency inflows in October were cited as the reason for the move.

The krone remained unchanged against the D-Mark yesterday, the markets having widely expected such a cut. It closed in London trading at DKr3.802, the same rate as on Wednesday.

■ The dollar rose in Asian and early European trading yesterday on news of some progress towards stability in Latin America, before softening on leaked US non-farm payroll data showing employment growing more slowly than expected.

The dollar rose above the Y117.5 level against the yen in overnight trading before sinking back to Y117.1 at the close of trading in London.

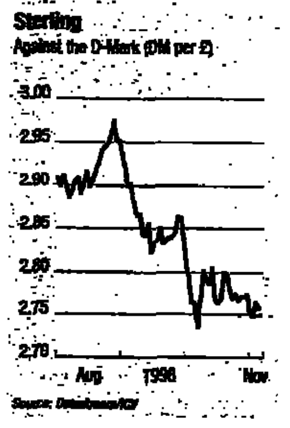
The Mexican peso also firmed on the news as traders took advantage of the reduced risk of a rapid devaluation in Brazil spreading through the region.

Markets were reassured as Brazil took the first step in a long process of hauling the government budget back into balance.

The country's congress voted for a stiff pensions package of higher contributions and restricted entitlements, which has been awaiting approval for several years.

Sterling

Against the D-Mark (DM per £)



Source: Datastream/ICV

■ POUND IN NEW YORK

Nov 5	—Latest—	— Prev. close —
£ spot	1.6630	1.6605
1 mth	1.6607	1.6580
3 mth	1.6568	1.6535
1 yr	1.6420	1.6398

■ OTHER CURRENCIES

Nov 5	£	$
Czech Rp	48.6085 - 48.6934	29.2470 - 29.2840
Hungary	355.851 - 358.355	214.110 - 214.310
Iran	4988.40 - 4998.00	3000.00 - 3000.00
Kuwait	0.5016 - 0.5023	0.3018 - 0.3021
Peru	5.1190 - 5.1264	3.0800 - 3.0830
Poland	5.6840 - 5.6901	3.4200 - 3.4220
Russia	25.4618 - 25.6404	15.3200 - 15.4200
U.A.E.	6.1040 - 6.1078	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Nov 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.3916	-0.0525	821 - 011	19.4910	19.3041	19.3361	3.4	19.234	3.3	18.8873	2.6	103.5
Belgium	(BFr)	56.8641	-0.1582	105 - 176	57.0550	56.6380	56.7024	3.4	56.3995	3.3	55.3579	2.6	103.7
Denmark	(DKr)	10.4790	-0.0298	723 - 856	10.5340	10.4358	10.4575	2.5	10.415	2.4	10.2678	2.0	107.3
Finland	(FM)	8.3948	-0.0212	790 - 905	8.4258	8.3490	8.3817	3.3	8.316	3.3	8.1615	2.7	82.7
France	(FFr)	9.2415	-0.0264	384 - 445	9.2849	9.2030	9.2149	3.5	9.1656	3.3	8.997	2.6	107.3
Germany	(DM)	2.7564	-0.0074	551 - 576	2.7713	2.7435	2.7485	3.5	2.7343	3.2	2.6839	2.6	105.3

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.6649	-0.079	619 - 677	11.7451	11.6460	11.6475	1.8	11.6133	1.8	11.5368	1.4	103.3
Belgium	(BFr)	34.2060	-0.234	820 - 300	34.3770	34.1700	34.156	1.8	34.0535	1.8	33.726	1.4	103.5
Denmark	(DKr)	6.3033	-0.0435	010 - 060	6.3467	6.2953	6.2983	0.8	6.2885	1.0	6.2555	0.8	106.6
Finland	(FM)	5.0436	-0.0332	415 - 460	5.0748	5.0380	5.0369	1.7	5.0212	1.8	4.9723	1.4	82.1
France	(FFr)	5.5591	-0.0365	586 - 596	5.5942	5.5500	5.5507	1.8	5.5342	1.8	5.4813	1.4	106.8

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

EC lifts forecasts for CAP spending

By Michael Smith in Brussels

Falling farm prices have led the European Commission to increase its 1999 spending forecasts for the common agricultural policy by more than Ecu500m ($588m).

The commission estimates that the European Union's arable sector will need Ecu1bn on top of forecasts drawn up in April. Sugar will need an extra Ecu236m and pigmeat Ecu77m.

However, savings in wine (Ecu135m), milk products (Ecu237m) and beef and veal (Ecu208m) will help to limit the overall expenditure increase to Ecu513m.

Spending in the CAP's guarantee fund, the biggest part of EU farm spending, is put at Ecu40.95bn.

The commission said in June that its preliminary draft budget for 1999 presented two months previously would have to be revised because of growing problems in the markets.

Its recent update, drawn up by Erkki Liikanen, budget commissioner, says the Russian financial crisis and other factors affecting markets could prompt a further *revision still*.

It says the 6 per cent increase in the estimate for cereals is concentrated on traditional market support expenditure of export refunds, public storage and production aid for starch and potato flour.

The pigmeat sector rise is blamed on a "serious crisis" that has followed over-production prompted by an outbreak of swine fever. The sugar increase results from historically low prices in that sector.

Wine spending forecasts have fallen because production will be less than expected. Milk delivery forecasts are also lower while the fall in beef payments come from a cut in the number of payment premia for male cattle.

Mitch costs mount in Central America

The hurricane has devastated agriculture throughout the region, says **James Wilson**

Floods have left coffee plantations inaccessible, shrimp farms buried under mud and fruit crops ruined

Often the damage from hurricanes is associated with coastal areas, affecting typical crops of the tropical lowlands such as bananas and sugar cane. But with its extended stay and *erratic journey throughout* Central America, Hurricane Mitch has ripped out a much wider piece of the region's vital agricultural base.

Bananas have certainly been one of the main products damaged. In Honduras, plantations are still under water, 10 days after Mitch began to buffet the region.

However, all around the country, and in Nicaragua, El Salvador and Guatemala, the rains brought in Mitch's wake have left coffee plantations inaccessible, shrimp farms buried under mud, and fruit crops ruined.

Few farmers can say they have not been affected. Assessing the overall effect on the region is an immense task, with so many areas still inaccessible by land, and first priorities to rescue the stranded.

In Honduras, the worst affected country, authorities are *tentatively* assessing the value of lost agricultural production at $200m in 1998, rising to more than $500m in 1999.

"Almost half the losses in the economy are in the agricultural sector," says Edin Barjum, president of the central bank. Coffee, bananas and shrimp are three staples of the economy.

The shocks have already been felt on coffee markets, where prices have risen this week since it became clear the crop would suffer. Growers say first indications are that the 1998-99 crop will fall some 20 per cent.

Central America, where the harvest was barely a month under way, produces 10-13 per cent of the world's coffee and Guatemala and Honduras are significant exporters.

That shock could yet be good news for producers, raising prices after a long slump. Coffee is a fairly resistant plant and as long as Central America can begin picking and exporting again quickly, it may latch on to the better prices.

However, with road links in tatters because of landslides and washed-away bridges, producers fear more coffee could be lost. "Some of the worst damage will be caused by the destruction of the roads," says Fernando Montes of the Honduran Coffee Institute.

Sugar has been less affected, although the harvest, due to start in November, will be delayed.

In Honduras, not a big exporter, one producer estimated a 40 per cent fall in the harvest. In Guatemala, which has earned more than $300m this year as the region's third producer behind Brazil and Cuba, losses should be smaller, says Guillermo Méndez of the Chamber of Agriculture.

Apart from these traditional staples of the region's economies, big losses are already evident for producers of soft fruit and vegetables – "non-traditional" crops that Central American countries have increasingly turned to as a way to expand their export base.

Of Guatemala's $300m in annual non-traditional exports, such as melons, Mr Méndez says 25 per cent come in the last two months of the year and estimates up to $30m in losses.

"November is precisely the best time for melon exports," says Mr Méndez. "People will begin to question whether they can continue in this type of product."

Cardamom exports from Guatemala, *the world's* biggest source of the spice, are also set to be affected by transport bottlenecks. But although producers are already having a bad season, with yields affected by El Niño last year, Mitch did not add to the damage.

"From the point of view of production, there is not too much of a problem. But you cannot get into the zone – all the roads are blocked," said Rodolfo Rivera, general manager of Excard, a cardamom exporter in Guatemala.

The prevailing view is that it is paramount to re-establish communications with areas left isolated, to enable farmers to ship the produce they have. Without quick repairs to basic infrastructure, even producers whose crops have survived could be facing disaster.

Banana prices jump in wake of hurricane

By Paul Solman in London and James Wilson in Tegucigalpa

Banana prices have jumped as Hurricane Mitch has *caused widespread damage* to crops in Central America, an important source of supply of the fruit.

"It's clear that a lot of capacity has been lost," Terry Bivens, analyst at Bear Stearns in New York, said yesterday. "US spot prices have doubled in the past week to $9.50 a box."

Central America is the US's biggest source of bananas and plantain imports, accounting for $642m-worth last year, according to the US Department of Agriculture.

The biggest supplier in the region is Costa Rica, which provided $301m, Ecuador provided $287m, Colombia $176m and Honduras $146m.

"Prices are beginning to slow down now, though I would see prices rising as high as $10 a box," Mr Bivens said. "However, it is not clear how long it will take to *assess the extent of the damage* in Honduras and Guatemala."

Growers in Honduras, gazing on plantations that lie under lakes of muddy water, have no illusions of salvage. Juan Manuel Moya, government relations manager of Standard Fruit, one of the two big producers in Honduras, said he expected "a 100 per cent loss".

Chiquita Brands, the US fruit group, said it would make a fourth-quarter write-off of about $50m on the 7,000 hectares it owns in Honduras.

With land needing to be rehabilitated, and the plants taking nine months to begin producing fruit, Honduras will be banana-free for most of 1999, leaving a $200m hole in exports and a gap in world availability.

Dole Foods, which this week said it would take a $50m-$70m charge in the fourth quarter because of Hurricane Mitch, said yesterday 40,000 acres of its plantations had been damaged.

"We expect a 12-month to 18-month interruption in supply from Honduras, Guatemala and Nicaragua. But it is too early to say how that will affect prices and supplies in the long term," Dole said.

Europe relies less heavily than the US on bananas from Central America, and its supplies of "dollar bananas" – from countries such as Ecuador, Colombia, Costa Rica, Honduras and Panama – are restricted under European rules.

Nevertheless, some importers are predicting supply problems.

"It's a fact that part of the market has been knocked out in Honduras," Safeway, the supermarket group, said yesterday. "Although we don't source our bananas from that area, it will have a big impact on market volumes and therefore price." It was unable to say whether higher prices would be passed on to consumers.

Philip Halpenny at Fyffes, the fruit group, said: "Our understanding is that Honduras has lost 70 per cent of banana production and Guatemala has lost 80 per cent. Most of the fruit from those countries is sold in the US, so it will not have a direct impact on the European market, though of course it is an enormous disaster for Central America."

Mr Halpenny said eastern Europe could bear the brunt of any supply shortfall, as US importers redirect supplies to satisfy the more profitable markets at home.

Nickel prices continue rising strongly

MARKETS REPORT

Nickel prices on the London Metal Exchange continued their strong rise yesterday, with three-month metal closing up $75 at $4,260 a tonne.

Dealers said the supportive impact of strikes at Eramet's mines in New Caledonia was fading. Alan Williamson at Deutsche Bank Research said the strikes were likely to result in the loss of only "several hundred tonnes" of physical nickel. "Indeed, Eramet was already planning to cut output in New Caledonia anyway, in an attempt to help redress the over-supply in the physical market."

Nevertheless, other cuts – caused by technical problems or because the price has been low – totalled more than 50,000 tonnes and this would ensure the supply surplus this year was smaller than expected at the start of the year and "much lower than is currently being priced in". Traders said nickel might edge towards $4,300 in the near term.

Aluminium ignored news that Alcoa in the US will trim output at its Eastalco smelter by 30,000 tonnes a year because the group said this would not affect its total production. Three-month aluminium closed $4 a tonne lower at $1,315.

World oil prices were weak in spite of signs of renewed tensions in the Gulf. The US was pressing for a United Nations vote last night on a resolution to condemn Iraq's refusal to co-operate with UN arms inspectors.

The benchmark December contract for Brent blend was $12.67 a barrel in late trading on London's International Petroleum Exchange compared with Wednesday's close of $12.82.

On the London International Financial Futures and Options Exchange, robusta coffee futures ended higher on arbitrage activity. The nearby November contract ended up $19 at $1,894 a tonne, while the most actively traded January contract was up $11 at $1,686.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1296-97	1318-19
Previous	1295-6	1317.5-8.5
High/low		1323/1315
AM Official	1293-93.5	1314.5-15
Kerb close		1315-16
Open int.	343,165	
Total daily turnover	82,578	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1085-90	1118-25
Previous	1085-90	1118-20
High/low		1125/1122
AM Official	1085-88	1120-21
Kerb close		1117-25
Open int.	6,968	
Total daily turnover	1,940	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	488.5-9.5	498-8.5
Previous	485-6	495-6
High/low		503/495
AM Official	488-8.5	498-8.5
Kerb close		495-6
Open int.	40,574	
Total daily turnover	11,328	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4205-15	4270-80
Previous	4095-105	4165-70
High/low		4305/4135
AM Official	4185-90	4235-40
Kerb close		4260-70
Open int.	64,656	
Total daily turnover	25,835	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5585-95	5520-30
Previous	5575-85	5515-25
High/low		5550/5525
AM Official	5580-90	5515-20
Kerb close		5525-30
Open int.	17,780	
Total daily turnover	8,919	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	954-5	972-3
Previous	960.5-1.5	979-80
High/low		975/971
AM Official	951.5-2	970-1
Kerb close		971-2
Open int.	89,155	
Total daily turnover	28,462	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1603.5-04.5	1630-31
Previous	1602-3	1629-30
High/low		1638/1620
AM Official	1597.5-98	1624-25
Kerb close		1626-27
Open int.	168,975	
Total daily turnover	53,862	

■ LME AM Official £/$ rate: 1.6650

LME Closing £/$ rate: 1.6625

Spot: 1.6539 3 mths: 1.6566 6 mths: 1.6530 9 mths: 1.6487

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	72.85	+0.15	73.55	72.75	547	1,271
Dec	73.20	+0.10	74.10	72.80	14,338	35,472
Jan	73.35	+0.10	73.90	73.35	19	2,262
Feb	73.60	+0.05	74.25	73.80	6	1,266
Mar	74.10	+0.10	74.90	73.80	563	9,314
Apr	74.45	+0.15	74.40	74.40	149	1,238
Total					16,311	67,898

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	291.60-292.10		
Opening	291.20-291.50		
Morning fix	290.90	175.54	395.06
Afternoon fix	290.80	174.95	394.49
Day's High	291.70-292.00		
Day's Low	290.00-290.30		
Previous close	292.20-292.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.58	6 months	3.75
2 months	4.18	12 months	2.85
3 months	4.11		

Silver Fix	p/troy oz.	US cts equiv.
Spot	299.82	495.00

Silver Lending Rates

1 month	3.80	6 months	2.20
2 months	3.20	12 months	2.00
3 months	4.10		

Gold Coins	$ price	£ equiv.
Krugerrand	290-300	178-180
New Sovereign	69-73	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	294.8	+3.0	296.0	291.4	32,772	76,693
Feb	296.8	+3.0	297.7	293.5	7,801	28,454
Apr	298.7	+3.0	298.5	295.7	782	16,889
Jun	300.3	+3.0	301.5	297.4	394	14,369
Aug	301.8	+3.0	-	-	47	5,354
Oct	303.3	+3.0	-	-	-	2,228
Total					42,365	182,739

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	346.3	-0.3	349.8	345.5	3,228	14,920
Apr	347.8	-0.3	351.0	348.0	82	473
Jul	348.8	-0.3	-	-	-	137
Oct	349.9	-0.3	-	-	100	992
Total					3,310	16,922

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	276.00	+1.00	276.50	275.00	259	2,171
Mar	275.25	+1.20	-	-	287	831
Jun	273.25	+1.25	-	-	5	5
Total					651	3,132

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	504.5	+10.3	505.5	493.0	6,906	42,080
Jan	506.6	+10.3	500.0	498.0	2	77
Mar	509.3	+10.5	509.5	497.5	251	17,149
May	511.8	+10.6	510.0	503.0	80	4,465
Jul	514.2	+10.7	515.5	508.0	4	2,913
Sep	515.4	+10.8	-	-	-	1,197
Total					7,244	74,806

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	14.16	+0.02	14.20	13.84	58,100	122.9k
Jan	14.36	+0.03	14.39	14.05	18,209	65,867
Feb	14.54	+0.02	14.58	14.25	6,087	34,923
Mar	14.70	+0.02	14.71	14.47	2,496	20,343
Apr	14.75	-0.09	14.80	14.70	2,801	14,411
May	15.07	+0.09	15.07	14.95	2,056	13,586
Total					181,516	474,548

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	12.72	-0.10	12.79	12.54	16,091	46,570
Jan	12.99	-0.04	13.08	12.84	10,128	60,222
Feb	13.24	-0.04	13.29	13.08	2,653	23,922
Mar	13.41	-0.04	13.44	13.25	671	18,019
Apr	13.59	-0.03	13.59	13.59	317	12,956
May	13.76	-	-	-	0	7,762
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	39.50	+0.11	39.70	38.80	23,199	56,238
Jan	40.70	+0.21	40.85	40.00	7,755	33,420
Feb	41.55	+0.36	41.60	40.85	4,453	25,574
Mar	41.90	+0.41	41.90	41.20	1,123	18,496
Apr	41.95	+0.46	41.95	41.30	291	9,270
May	41.50	-	41.55	41.50	378	7,764
Total					38,894	185,427

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	113.25	-1.00	113.75	112.25	5,399	26,974
Dec	117.00	-0.75	117.50	115.75	6,385	47,275
Jan	120.00	-1.00	121.00	119.50	1,290	25,682
Feb	122.25	-1.00	123.50	122.25	265	16,585
Mar	123.25	-1.25	125.00	123.75	317	11,990
Apr	126.50	-1.25	126.75	126.75	1	6,290
Total					23,329	172,692

■ NATURAL GAS IPE (p/therm)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	15.240	-0.010	15.280	15.230	155	3,040
Jan	18.150	-0.070	18.150	18.150	50	4,015
Total					n/a	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.540	-0.145	2.585	2.367	24,363	51,844
Jan	2.650	-0.112	2.675	2.510	8,163	34,030
Feb	2.420	-0.095	2.570	2.450	3,218	22,310
Mar	2.420	-0.085	2.440	2.340	2,205	20,438
Apr	2.290	-0.050	2.300	2.248	781	12,513
May	2.226	-0.033	2.230	2.180	659	10,146
Total					41,212	237,984

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	43.40	+0.04	43.55	42.60	13,897	32,767
Jan	43.75	+0.09	43.85	42.90	3,821	13,096
Feb	44.15	-0.06	44.15	43.15	1,131	5,397
Mar	44.90	-0.11	-	-	14	5,318
Apr	47.75	-0.16	47.75	47.75	42	7,168
May	48.13	-0.36	-	-	150	5,653
Total					19,421	78,358

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	79.50	-0.25	80.00	80.00	4	62
Jan	81.50	-0.40	82.35	81.65	75	2,631
Mar	83.50	-0.50	84.25	83.65	271	3,266
May	85.50	-0.40	86.10	85.85	78	1,290
Jul	87.50	-0.40	-	-	-	226
Total					463	9,258

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	287.50	+3.25	288.50	282.25	13,240	66,359
Mar	303.50	+4.00	304.00	298.00	4,152	41,791
May	311.75	+2.75	312.25	309.00	321	6,887
Jul	316.75	+3.25	320.50	315.50	764	17,803
Sep	327.50	+2.50	328.00	326.00	50	739
Dec	338.50	+2.50	338.50	338.50	66	822
Total					18,595	133,801

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	217.25	+1.75	218.75	215.00	34,081	145,613
Mar	228.00	+1.50	230.00	226.00	8,649	91,641
May	235.50	+1.25	237.50	233.75	1,107	34,796
Jul	241.00	+1.75	242.50	239.00	1,837	42,869
Sep	246.50	+1.50	248.00	246.25	265	6,630
Dec	253.50	+1.50	255.00	251.00	913	19,506
Total					47,810	342,587

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Nov	78.00	-0.25	78.00	77.50	21	9
Jan	79.75	-0.50	80.00	80.00	15	868
Mar	81.75	-0.50	-	-	-	151
May	82.75	-0.50	-	-	-	33
Sep	81.50	-	-	-	-	-
Total					36	1,061

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	559.50	+5.25	562.50	555.00	8,695	17,860
Jan	567.50	+4.75	571.25	561.00	27,580	65,258
Mar	576.00	+4.50	579.75	568.75	3,187	26,455
May	584.25	+4.50	588.00	576.00	1,014	12,077
Jul	592.75	+4.50	596.00	587.00	1,726	16,808
Aug	593.50	+5.25	595.50	593.50	143	1,084
Total					41,113	146,891

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	24.77	+0.36	24.95	24.33	8,750	44,912
Jan	24.83	+0.34	24.97	24.42	4,133	19,088
Mar	24.82	+0.28	24.95	24.50	1,669	19,063
May	24.85	+0.30	24.92	24.67	730	9,835
Jul	24.87	+0.19	25.00	24.75	612	12,392
Aug	24.87	+0.22	24.90	24.85	36	1,064
Total					18,383	111,167

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	142.7	+0.7	144.0	142.0	11,123	64,079
Jan	145.0	+0.7	146.3	144.8	5,510	22,901
Mar	148.9	+0.6	150.3	148.8	1,869	17,371
May	152.5	+0.9	153.7	152.2	404	9,864
Jul	156.3	+1.1	157.3	156.0	623	13,277
Aug	157.7	+1.2	158.8	157.7	288	2,459
Total					20,073	135,989

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Mar	180.0	-	-	-	-	-
Apr	272.0	-4.5	272.0	269.5	143	2,032
May	282.0	-4.5	-	-	-	29
Jun	292.0	-4.5	-	-	-	-
Nov	85.0	-	-	-	-	3
Total					143	2,032

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Nov	980	-	1000	980	13	376
Dec	1000	+10	-	-	-	237
Jan	1000	-	1010	1000	5	558
Apr	1020	+5	1020	1020	10	540
Jul	915	+5	-	-	-	275
Total					28	2,284

	Close	Prev
BFI	957	958

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	430.25	+0.25	431.25	430.25	26	417
Mar	453.00	+0.25	453.75	452.75	53	218
Total					104	688

FUTURES DATA

All futures data supplied by CMS.

Wool from Mallett & Co

Merino wool was dearer to buy in Australia and South Africa this week, continuing the recovery that started a few days ago. This could be a seasonal upturn before the Christmas recess and with shipping deadlines to meet. The main eastern market indicator in Australia closed at 489 cents a kg, 5 cents up on the week. New Zealand failed to reflect the firmer tendency fully and the indicator there was 3 cents down to 402. Market observers have noted steadiness in the main primary markets. China has been competing a little more actively in world markets. The threat of world recession looms large, however.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1001	-2	1003	994	2,110	46,697
Mar	1034	-2	1037	1024	2,747	36,038
May	1050	-1	1054	1044	459	15,907
Jul	1070	-2	1071	1063	318	9,946
Sep	1087	-3	1086	1079	210	27,340
Dec	1100	-3	1107	1107	6	11,080
Total					5,852	157,167

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1493	-24	1513	1491	4,897	24,373
Mar	1533	-21	1550	1523	3,863	31,195
May	1560	-21	1575	1558	293	8,070
Jul	1585	-21	1584	1582	168	2,377
Sep	1610	-21	1620	1605	280	3,070
Dec	1640	-21	-	-	7	5,272
Total					9,396	77,922

■ COCOA (ICCO) (SDR's/tonne)

Nov 4	Price	Prev. day
Daily	1157.19	1149.47

■ COFFEE LIFFE (5 tonnes; $/tonne)

Nov	1892	+17	1898	1870	160	6,301
Jan	1687	+12	1695	1665	2,003	23,741
Mar	1647	+10	1653	1625	730	8,676
May	1628	+9	1630	1610	314	2,938
Jul	1613	+9	-	-	-	873
Sep	1598	+9	-	-	-	317
Total					3,207	41,086

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	124.35	-0.30	127.00	122.00	11,040	14,179
Mar	116.30	+0.85	115.80	113.00	6,445	10,998
May	114.75	+1.00	115.00	112.50	1,004	4,910
Jul	115.45	+1.20	115.25	114.00	650	2,050
Sep	116.00	+1.50	116.00	115.00	583	1,433
Dec	117.00	+1.50	116.50	116.50	343	596
Total					20,065	34,178

■ COFFEE (ICO) (US cents/pound)

Nov 4		Prev. day
Comp. daily	100.67	103.21
15 day average	96.46	96.04

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Dec	230.5	+0.6	231.3	228.8	3,839	10,595
Mar	234.0	+0.7	235.0	232.0	3,216	16,052
May	235.0	+0.5	235.5	233.5	655	3,421
Aug	235.2	+1.2	236.0	233.2	439	2,968
Oct	229.7	+1.2	230.0	228.2	63	2,526
Dec	230.7	-0.6	232.5	232.5	2	192
Total					8,214	35,837

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	8.02	-0.03	8.05	7.90	32,688	84,392
May	8.08	-0.05	8.13	8.00	5,952	18,404
Jul	8.10	-0.03	8.13	8.02	2,306	15,374
Oct	8.28	-0.04	8.31	8.22	1,276	10,938
Mar	8.53	-0.04	8.54	8.50	551	7,579
May	8.60	-0.04	-	-	120	638
Total					42,871	137,526

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	67.73	-0.73	68.65	67.65	7,426	33,929
Mar	67.04	-0.55	67.85	67.00	2,641	24,171
May	67.54	-0.44	68.20	67.50	202	14,084
Jul	68.10	-0.37	68.65	68.00	244	10,134
Oct	67.95	-0.60	-	-	7	876
Total					10,536	93,487

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	116.25	+0.90	116.25	115.50	230	539
Jan	118.20	+1.30	118.30	117.10	977	13,140
Mar	120.20	+1.20	120.10	119.50	158	5,711
May	122.05	+1.15	121.90	121.90	5	1,396
Jul	123.55	+1.15	-	-	3	667
Sep	124.05	+1.15	-	-	-	66
Total					1,379	21,857

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & *Open interest totals are for all traded months.*

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 5	Nov 4	month ago	year ago
n/a	1492.5	1450.4	1817.4

■ CRB Futures (Base: 1967 = 100)

Nov 4	Nov 3	month ago	year ago
205.30	204.95	-	-

■ GSCI Spot (Base: 1970 = 100)

Nov 4	Nov 3	month ago	year ago
147.85	148.23	151.57	204.79

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-325	to	527,3001
Aluminium alloy	-20	to	85,220
Copper	+625	to	463,275
Lead	-125	to	109,875
Nickel	+36	to	90,360
Zinc	-1,550	to	345,225
Tin	-175	to	7,760

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	63.925	-0.575	64.400	63.775	9,764	42,508
Feb	64.475	-0.400	64.800	64.300	5,113	29,650
Apr	65.875	-0.300	66.150	65.800	1,875	18,605
Jun	63.450	-0.400	63.725	63.350	695	10,426
Aug	63.300	-0.100	63.480	63.300	183	6,084
Oct	65.575	-0.050	65.650	65.450	48	707
Total					17,696	108,081

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Dec	35.200	-1.000	36.000	34.550	5,130	17,244
Feb	42.150	-0.950	42.850	41.850	2,754	10,769
Apr	45.600	-0.450	46.075	45.100	1,172	4,566
Jun	55.275	-0.225	55.300	54.500	329	3,105
Jul	55.225	+0.025	55.600	54.825	230	1,483
Aug	55.275	+0.125	55.300	55.150	74	1,458
Total					9,765	38,277

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	47.525	-1.775	48.400	46.500	2,081	3,770
Mar	47.200	-1.625	48.200	46.400	111	403
May	47.275	-1.725	48.600	47.275	12	176
Total					2,221	4,428

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1250	67	97	5	20
1300	32	65	20	38
1350	11	41	49	63
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
1500	117	160	8	30
1600	46	98	35	66
1700	11	55	100	121
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1600	112	109	25	62
1650	79	83	42	86
1700	56	63	69	116
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1000	13	53	12	19
1025	4	39	28	30
1050	1	29	50	45
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1250	25	-	13	38
1300	10	64	-	-
1350	5	39	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.41-2.44x	-0.15
Brent Blend (dated)	$11.70-1.73	-0.14
Brent Blend (Dec)	$12.70-2.73	-0.14
W.T.I.	$14.06-4.08x	-0.09

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$144-146	-4
Gas Oil	$112-113	
Heavy Fuel Oil	$58-60	-1
Naphtha	$131-133	-1
Jet fuel	$130-131	-0.5
Diesel	$123-124	

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	15.23-15.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$291.85	+1.30
Silver (per troy oz)♣	495.00c	+2.50
Platinum (per troy oz.)	$348.00	+2.00
Palladium (per troy oz.)	$275.00	+1.00
Copper	78.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.65r	+0.30
Tin (New York)	265.5	+2.0
Cattle (live weight)	79.14p	+1.91*
Sheep (live weight)	63.34p	-6.03*
Pigs (live weight)†	49.72p	+2.42*
Lon. day sugar (raw)	$198.30	+2.70
Lon. day sugar (wte)	$234.90	+4.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	50.00p	
Rubber (Jan)♥	50.50p	
Rubber (KL RSS No1)	276.50m	-0.50
Coconut Oil (Phil)§	745.0y	+16.0
Palm Oil (Malay)§	682.50	+2.5
Copra (Phil)§	$480.0y	-17.5
Soyabeans (US)	155.0y	
Cotton Outlook'A' index	58.00	
Wooltops (64s Super)	295p	+8

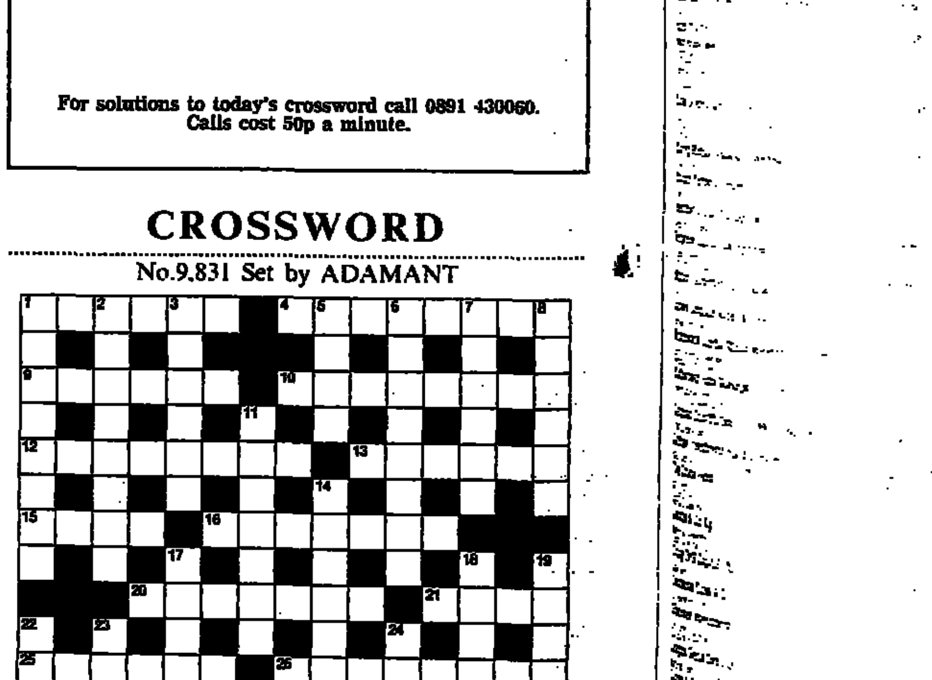
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Dec. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 815 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,831 Set by ADAMANT



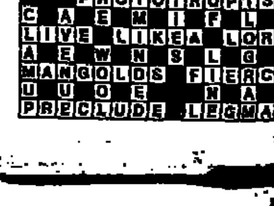
ACROSS

1 After last concert the composer can go places (6)
4 Witty writer in days gone by about Rodney and me (8)
9 Nag about mother being without bottle (6)
10 Am veiled and disguised for a period (8)
12 Having branches may get you into a rut (8)
13 However, not over a fastener (6)
15 In America diplomats are alien creatures (4)
16 Surprise when actor is let out (7)
20 Jack's anti the move, but will not vote (7)
21 Lawyers on ecstasy take clothes off (4)
25 Special forces' *medical man* in unfortunate case (6)
26 Takes what is suitable in the remedies (8)
28 Happening with usual states missing in the end (8)
29 Where, in the intelligence system, agents go back for screening? (6)
30 Young socialite, potentially drear, is prevented from joining (8)
31 Counting on people (6)

DOWN

1 Plaything for one parliamentarian, a name in the corporation (8)
2 Most rang about the measurement of light (8)
3 Managed to get away and delude the others (8)
5 One top rated tree (4)
6 You and I sold out in a contemptible manner (8)
7 Request the company of popular girl at fringe theatre (6)
8 Old money providing explosive casing for drink (6)
11 Willing to try out tea (7)
14 Coming for Mary without my opponent (7)
17 One who has reservations (8)
18 New England state needing outside tenders for transporters (8)
19 Muddle one has to move for the delivery men (8)
22 Writing on the second set of beliefs (6)
23 Braved the disturbance at part of speech (6)
24 More than a private chevron (6)
27 Cost of travelling to the market, say (4)

Solution 9,831



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

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Newton Fund Mgrs - Contd.

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (u)

Fleming Group - Contd.

Mercury Asset Management

Templeton Global Strategy Funds (u)

Cox & Kings Overseas Fund

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

LUXEMBOURG
(REGULATED)(**)

MFS American Funds

Templeton Russian & East European Debt Fd

Tower Fund

Tweedy, Browne Value Funds

UBS AG

OFFSHORE INSURANCES

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Finance International Ltd

Friends Provident International

PanEuroLife societe anonyme

Premier Life

Royal & Sun Alliance Intl Financial Srvs

Amfield-Herman Investment Mgmt Inc

Arnhold and S. Bleichroeder, Inc

Asia Debt Management Hong Kong Ltd

Asia Pacific Securities Corp Ltd

Atlantico Investment Ltd

Atlantic Investment Management, Inc

Atlantic Fund Management (Guernsey) Ltd

Aurum Funds

BBV Bank

BEA Associates

BNP

Julius Baer Bank & Trust Co Ltd

Dresdner RCM Global Investors - Contd.

Dresdner Bank Investment Group

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd

National Mutual Funds Management

Nautilus Global Limited

New Asia Asset Management Ltd

Nicholas-Applegate Capital Mgmt

Scudder, Stevens & Clark Inc

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
BG	†	401½xd	+3¼	411	237	14,542	2.6	24.1
Centrica		107¼	-1¼	125	80¼	57,174	-	-
International Energy	†	133½xd	-½	147	58½	7	3.7	13.5

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by GT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Abbreviations: ex dividend; ex scrip issue; ex rights; ex all; ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

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For Retail Price Index details call 0891 43 0005

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Shares slide on profit-taking in spite of rate cut

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The warnings that an interest rate cut had already been priced into the London equity market proved spot on yesterday as the 50-basis-points reduction was greeted by a three-figure decline in the FTSE 100 index.

"We had already factored in a 25-basis-points cut, and there was a lingering hope that 50 basis points would keep the pot boiling. But it soon became clear that even that would not be enough to drive us further ahead," said one marketmaker.

The market's response to the monetary policy committee's decision was an instant flash of blue right across the trading screens, which transformed a pre-decision 80-point decline into a 40-point loss within seconds.

But after another few minutes, the market had made up its mind that an earlier downwards lurch in the Footsie was correct. Thereafter, stocks struggled to cope with flurries of selling pressure from institutions eager to lock in profits after the phenomenal rally that has seen the FTSE 100 rise nearly 1,000 from its October 5 low.

Some pointed out that marketmakers had taken a classic opportunity to exploit momentary weakness in the market to replenish their depleted trading books, allowing them to pick off the stocks they were unable to cover in recent weeks.

When the dust settled, the FTSE 100 had dropped 143.1 to 5,479.8. At its worst of the day, in mid-afternoon and when Wall Street was under moderate pressure, the index hit 5,467.9, down 155.0.

The mid and smallcaps also fell but held up better than the leaders. The FTSE 250 ended the day 42.6 off at a session low of 4,928.8. And an 18-session sequence of gains in the FTSE SmallCap ground to a halt. It closed 5.6 off at 2,061.0.

London looked stretched from the outset, after Wall Street had finished well off its Wednesday peak and the widespread losses across Tokyo and Hong Kong markets eroded confidence ahead of the monetary policy committee decision.

And there was a host of disappointments on the corporate front yesterday, with the insurance sector on the run from the start after disappointing third-quarter numbers from Royal & Sun Alliance which also prompted big losses in CGU and GRE.

Shell's third-quarter numbers were every bit as bad as the most pessimistic analysts had been looking for.

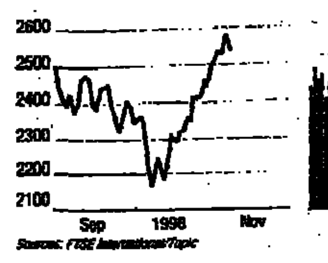
The latest profits warning came from Micro Focus, the software group, saw its shares more than halve at one point. At least Boots managed to avoid shocking the market, unlike its fellow retailer, Marks and Spencer earlier in the week.

Turnover at 6pm was a robust 1.09bn shares.

Market strategists were not downhearted by the sell-off. Corey Miller at Paribas said: "We have come up a long way too quickly. Those fund managers who missed out on the recent surge will have to chase it at some point."

He insisted there were four bull points sustaining the market: the bullish interest rate environment; the potential for a further decline in sterling; the potential for an easing of fiscal policy; and a continued squeeze in the stock market.

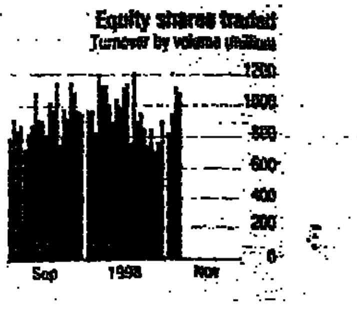
FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5479.8	-143.1	FT 30	3332.5	-88.7
FTSE 250	4928.8	-42.6	FTSE Non-Fins p/e	21.18	21.66
FTSE 350	2619.5	-60.6	FTSE 100 Fut Dec	5505.0	-159.0
FTSE All-Share	2532.70	-58.00	10 yr Gilt yield	5.09	5.11
FTSE All-Share yield	3.10	3.03	Long gilt/equity yld ratio	1.63	1.65

Best performing sectors		Worst performing sectors	
1 Distributors	+0.9	1 Insurance	-6.1
2 Tobacco	+0.6	2 Alcoholic Beverages	-5.9
3 Gas Distribution	+0.5	3 Food Producers	-4.1
4 Construction	-0.2	4 Electronic & Elect Equip	-3.7
5 Retailers General	-0.2	5 Diversified Industrials	-3.6

Airline's wings clipped

COMPANIES REPORT

By Martin Brice, Peter John and Joel Kibazo

British Airways suffered a round of swingeing downgrades as brokers moved to cut their figures ahead of results on Monday. The shares fell more than 6 per cent or 29 to 413p, one of the worst Footsie performances.

The cuts were prompted by what one analyst called "a fundamental change in the market" as BA faced a fall in the number of premium passengers.

Higher-grade seats were said to account for just 15 per cent of passengers but 40 per cent of revenue, so any fall in that area would have a significant effect on profits.

Mike Stoddart at Charterhouse Tilney cut his forecasts from £509m to £468m this year, and from £670m to £511m for next. ABN Amro was also said to have downgraded, from £670m to £565m for next year.

A disastrous performance from Micro Focus was prompted by its stark profit warning. The stock fell to levels not seen for two years as it shed 43 per cent or 101½ to 133¼p. Earlier this year it was at five times that level, at 718p.

The market took fright at the company's statement that demand for year 2000 products was weak in the US. Its prediction that third-quarter revenues would be $87m was about $20m below expectations.

Doubts over the amount of profit to be derived from millennium work sent a shudder through the IT sector. Among other IT shares, Admiral was down 35 at £10.40, CMG fell 97 to £15.78 and London Bridge Software dropped 60 to £10.40.

Royal & Sun Alliance fell sharply as brokers downgraded recommendations on the stock after the release of lower-than-expected nine-month results.

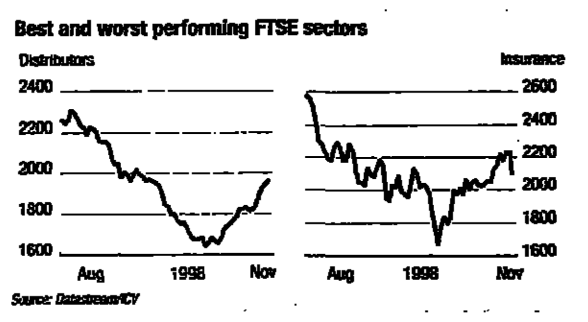
Dealers said joint house broker Warburg reduced its stance to "buy" from "strong buy" and others were more decisively on the "sell" side.

Shell-shocked analysts said the third-quarter figures confounded even the most grisly bears and full-year estimates were likely to be clattering down by at least £100m.

Charles Landa at SG Securities axed his full-year operating figure by £110m to £435. He said: "The company has to improve underwriting performance at a time of weak premium rates and difficult economic conditions. Unless it does so profits will remain subdued." The shares ended the day 50½ lower at 495½p.

Other insurers were dragged down as a result. Guardian Royal Exchange, lifted by refreshed takeover speculation over the past few days, dropped 27½ to 291½p. CGU fell 72 to 919p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Royal bid talk

Royal Bank of Scotland outperformed strongly with talk of a takeover fuelled by a "buy" note from Panmure Gordon, now known as West LB Panmure.

The shares jumped 30½ to 855p as the broker told clients Royal Bank was the cheapest in the sector on p/e terms and offers one of the better yields. Panmure has a "conservative" sum-of-the-parts valuation of £10.57.

More significantly for speculative investors, who have been returning to the market as equities come back into favour, the broker has revived enthusiasm for consolidation with a mortgage lender.

Panmure says: "The bank remains vulnerable to a bid, especially at current oversold levels. The latest rumoured bidder is the cash-rich Halifax." Analyst David Poutney points out that James Crosby, the new chief executive of Halifax, brokered the £800m takeover of Clerical Medical in 1996.

Halifax was also surprisingly buoyant with the shares gaining 23 to 847p.

"Relief that things were not as bad as many of us feared," was how one retail specialist greeted interim results from Boots.

The figures came just two days after Marks and Spencer stunned the market with what analysts regarded as a profits warning and a 23 per cent decline in interim profits.

Analysts had downgraded profit expectations ahead of the figures, prompting a sharp retreat in the stock. General relief and bargain-hunting boosted the stock yesterday. The shares closed 82 or 9.47 per cent ahead at 948p, the best performer in the FTSE 100.

Several brokers downgraded full-year profit expectations to around the £570m mark to reflect extra costs at the company and the downturn in the retail sector.

However, HSBC remains positive and was said to have reiterated its "add" recommendation on the stock. Initial interest in M&S faded leaving the shares to decline 6½ to 407½p.

Shell Transport tipped 21½ lower to 354½p on disappointment over the latest set of figures. Analysts said the company failed to deliver at a long and searching presentation.

Analysts added that the company has been hit on all fronts. They cited the drop in oil prices, the economic turmoil in Asia and its specific impact on oil companies' downstream operations.

Dean Corporation moved to unlock shareholder value by using a method adopted by its larger cousins and announced a demerger. Its housing, commercial and contracting side will move to Aim and be called Artisan while the rump will be called Environmental Property Services and retain its listing.

Sources close to the company said that if the housing side continued to trade at about 5 times forecast earnings but the property services side was rated at about 10 times forecast earings, the stock would be worth a total of about 17p. The shares firmed to 13p.

Building materials group Hewetson was up 5 at 120p amid talk that a large institution was seeking the stock. Three parcels of 50,000 shares went through amid some 230,000 shares traded.

A second profits warning in less than two months sent shares in PIC International Group tumbling. The company, the pig-breeding rump of the company formerly known as Dalgety, said it expects first-half operating profits before costs and exceptionals will be cut by half to around last year's comparable figure of £14.3m.

The shares lost 8¾ or 11.18 per cent to 67¼p, one of the worst performers in the FTSE 250.

Unilever fell 37 to 590p, ahead of today's third-quarter figures. Credit Suisse First Boston expects the group to report profits of £895m.

FT 30 INDEX

	Nov 5	Nov 4	Nov 3	Nov 2	Oct 30	Yr ago	*High	*Low
FT 30	3332.5	3421.2	3364.6	3394.2	3320.6	3162.5	4084.9	2790.6
Ord. div. yield	3.18	3.08	3.14	3.12	3.17	3.57	4.22	2.72
P/E ratio net	21.22	21.73	21.34	21.51	21.12	20.58	25.41	15.80
P/E ratio nil	21.13	21.64	21.26	21.42	21.03	20.30	25.19	15.71

FT 30 since compilation: high 4084.9 10/07/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
N/A	N/A	3372.2	3364.6	3339.2	3346.1	3339.7	3332.4	3426.1	3326.1

STOCK MARKET TRADING DATA

	Nov 5	Nov 4	Nov 3	Nov 2	Oct 30	Yr ago
SEAQ bargains	71,891	77,145	68,167	66,784	63,824	42,575
Equity turnover (£m)†	-	n/a	3232.7	2665.1	2451.5	2585.7
Equity bargains†	-	n/a	55,286	54,265	49,365	35,828
Shares traded (mil)†	-	n/a‡	993.6	749.6	764.6	726.3
Total market bargains†	-	n/a	68,086	65,504	61,476	-
Total turnover (£m)†	-	n/a	4434.0	3453.5	3348.7	-
Total shrs traded (mil)†	*1092.4	n/a	1267.3	919.0	1009.0	-
Tradepoint turnover (£m)	26.0	28.5	29.7	14.3	18.7	34.6
Tradepoint shrs traded(m)	11.9	12.5	9.5	6.1	8.8	13.2

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	577	Total Highs	29	Total contracts	37,556
Total Falls	893	Total Lows	46	Calls	22,458
Same	1,463			Puts	15,098

Nov 5 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5635.0	5505.0	-159.0	5658.0	5492.0	33373	200245
Mar	5691.0	5550.0	-161.0	5694.0	5554.0	2000	12134
Jun	5619.0	5594.0	-164.0	5620.0	5609.5	2003	7540

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4987.0	4943.0	-42.0	4987.0	4950.0	?	3830

FTSE 100 INDEX OPTION (LIFFE) (*5480) £10 per full index point Nov 5

	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P	5100 C	5100 P	5150 C	5150 P	5200 C	5200 P	5250 C	5250 P	5300 C	5300 P
Nov	250½	72	214½	86	180	101	151½	122½	123	144	97½	169½	77	198	57	229½
Dec	354	153	318	167½	288½	187	259	207½	229	227½	199½	248½	174½	272½	153	302
Jan	425½	204½	395	222½	364½	243½	334½	262	304	280½	273½	299½	244	321	221½	347½
Feb	505	266½	474	285	443	304	412½	322½	381½	341½	350½	361	320	381	296	408
Jun†	694½	423½			633½	459½			572½	495½			511	530		

Calls 1,514 Puts 1,591

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Nov 5

	4975 C	4975 P	5025 C	5025 P	5075 C	5075 P	5125 C	5125 P	5175 C	5175 P	5225 C	5225 P	5275 C	5275 P	5325 C	5325 P
Nov	232	78½	197	93½	165½	111½	135½	131½	108	155	85½	181	66	212	48	244½
Dec	340½	162	307	178	275	195½	242	212½	212½	232½	186	255	163	282	140½	309
Jan	418½	220½	386½	236½	354	253½	322	270½	289½	289	263½	311	237½	334½	216	362
Mar	537½	318			475	353			411	387			354	427		
Jun†	686½	497½			625½	443½			550½	484½			496½	530		

Calls 13,461 Puts 9,132 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	-	53½	48	Anglian Water B	51		-	-	-	-
§	F.P.	5.95	114	107	Collective Assets Tst	114		-	-	-	25.8
-	F.P.	40.7	102½	98	Exeter Enhanced	101½	-¼	F10	-	11.1	-
-	F.P.	149.0	105	78½	Fairview	81½	-1	L4.0	3.5	6.1	5.9
-	F.P.	419.9	325½	229½	First Active	307½	-10	-	-	-	18.5
§	F.P.	21.4	101	100½	Gartmore Fit Grd I&G	101		-	-	-	-
§	F.P.	6.35	105½	101	Do Inc	105	+½	-	-	-	-
§	F.P.	15.4	102½	100	Do Zero Div Pf	101½	+½	-	-	-	-
§55	F.P.	14.1	62½	56½	†Honeycombe Leisure	62½		-	-	-	9.9
§97	F.P.	8.09	103	97½	MSW Technology	97½		-	-	-	14.8
-	F.P.	37.3	12½	11	Marley B	11		-	-	-	-
§	F.P.	5.17	5½	5	†Natural Bldg Mts	5¼		-	-	-	-
§	F.P.	2.18	105	105	†Do Cnv Pf	105		-	-	-	-
-	F.P.	-	62½	50½	†Old Mutual Company	50½	-3	-	-	-	12.7
-	F.P.	7.48	93	90½	Piccadilly Grwth	90½		1.6	0.5	2.2	71.0
100	F.P.	-	103	97½	REXAM B	100½	-½	-	-	-	-
§	F.P.	-	185	170	Smaller Cos Eq Ltd	185		-	-	-	-
-	F.P.	-	14	5	Xenova Wts	13½	+3	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 4	% chg on day	Nov 3	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	1117.35	4.2	1071.97	1243.55	1.66	1119.13	1351.57	781.58
Regional Indices								
Africa (9)	1155.53	0.1	1154.17	1249.94	3.60	1159.10	1488.04	765.63
Australasia (9)	1225.90	-1.1	1239.02	1243.33	2.43	1229.57	1600.53	815.93
Americas (11)	1099.50	7.4	1024.19	1256.49	0.67	1100.23	1317.41	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 5	Day's chge%	Nov 4	Nov 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5479.8	-2.5	5622.9	5503.9	4983.8	2.93	2.51	1.97	21.58	129.31	2420.47
FTSE 250	4928.8	-0.9	4971.4	4911.7	4680.4	3.61	3.06	2.12	16.34	121.85	2136.02
FTSE 250 ex Inv Tr	4961.9	-0.8	5000.4	4945.0	4713.4	3.75	3.19	2.19	15.22	128.75	2159.43
FTSE 350	2619.5	-2.3	2680.1	2627.5	2353.6	3.05	2.60	2.00	20.46	62.28	2364.52
FTSE 350 ex Inv Tr	2625.0	-2.3	2685.9	2633.4	2356.1	3.06	2.61	2.02	20.24	62.79	1215.43
FTSE 350 Higher Yield	2541.0	-2.4	2602.8	2546.8	2339.0	4.07	3.45	1.93	15.89	78.67	1988.16
FTSE 350 Lower Yield	2694.9	-2.1	2753.7	2705.3	2379.9	1.96	1.69	2.16	29.53	48.10	1971.59
FTSE SmallCap	2060.99	-0.3	2066.62	2047.97	2322.91	4.03	3.28	1.97	15.73	54.10	1813.09
FTSE SmallCap ex Inv Tr	2018.09	-0.2	2019.60	2005.64	2328.64	4.38	3.57	2.07	13.79	57.40	1793.49
FTSE All-Share	2532.70	-2.2	2588.70	2539.26	2305.56	3.10	2.63	2.00	20.16	60.49	2320.22
FTSE All-Share ex Inv Tr	2540.85	-2.2	2597.50	2548.11	2309.23	3.12	2.65	2.02	19.85	61.25	1197.69

FTSE Actuaries Industry Sectors

	Nov 5	Day's chge%	Nov 4	Nov 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(29)	4223.28	-2.4	4325.80	4246.84	4570.25	3.53	3.15	1.51	23.38	118.22	1964.06
12 Extractive Industries(6)	2870.50	-1.1	2903.66	2854.45	3275.46	4.77	4.39	1.99	13.19	126.49	924.48
15 Oil, Integrated(3)	4825.25	-2.6	4953.72	4855.78	4983.25	3.43	3.04	1.45	25.14	126.64	2305.12
16 Oil Exploration & Prod(11)	2121.49	-1.4	2151.86	2168.09	3776.35	2.59	2.26	0.96	50.43	46.95	1327.83
20 GEN INDUSTRIALS(211)	1779.17	-2.4	1823.28	1778.71	2051.77	4.12	3.63	2.22	13.64	58.49	1062.22
21 Construction(39)	1303.97	-0.2	1306.46	1294.61	1376.87	3.91	3.16	2.97	10.76	37.73	1180.36
22 Building Matls & Merchs(29)	1636.07	-0.7	1647.84	1640.41	1806.58	4.58	3.95	2.12	12.89	58.57	907.28
23 Chemicals(23)	2038.81	-2.5	2090.47	2004.44	2481.60	4.50	4.21	1.78	15.78	72.95	1059.42
24 Diversified Industrials(6)	1111.03	-3.6	1152.51	1065.23	1371.78	4.99	4.73	2.10	11.95	57.13	703.79
25 Electronic & Elect Equip(28)	2396.03	-3.7	2488.23	2421.82	2229.00	3.21	2.60	1.85	21.03	59.92	1341.80
26 Engineering(59)	2285.69	-3.2	2361.83	2301.11	2833.19	4.22	3.74	2.23	13.27	78.75	1500.33
27 Engineering, Vehicles(10)	3369.89	-2.0	3437.88	3307.71	3505.89	2.65	2.43	3.27	14.42	74.78	1878.27
28 Paper, Pckg & Printing(22)	1560.05	-1.6	1585.05	1594.32	2228.69	5.91	5.41	2.46	8.80	67.75	718.72
30 CONSUMER GOODS(91)	5599.59	-2.8	5763.22	5726.59	4531.14	2.46	2.22	1.91	26.68	125.19	2236.76
32 Alcoholic Beverages(6)	3459.19	-5.9	3676.96	3649.76	3152.16	3.60	3.34	2.13	16.28	136.96	1386.25
33 Food Producers(27)	3594.97	-4.1	3747.12	3656.87	3051.74	2.80	2.24	2.27	21.16	74.24	1754.54
34 Household Goods & Texts(22)	2520.75	-0.9	2544.50	2568.32	2896.92	4.16	3.70	1.79	16.84	85.80	1078.94
36 Health Care(13)	2450.82	-3.2	2532.79	2517.39	2246.49	2.12	1.96	2.18	27.07	46.87	1582.22
37 Pharmaceuticals(20)	9690.33	-2.2	9904.12	9900.91	7327.01	1.82	1.70	1.59	43.20	165.24	3491.99
38 Tobacco(3)	6595.81	+0.6	6556.72	6481.64	4479.04	5.14	4.29	2.04	11.94	210.91	1869.21
40 SERVICES(280)	3237.40	-1.8	3296.25	3241.41	2797.67	2.86	2.18	2.08	22.81	58.74	1794.43
41 Distributors(29)	1958.94	+0.9	1940.77	1923.56	2690.59	5.02	4.15	2.02	12.32	73.19	782.60
42 Leisure & Hotels(28)	3033.96	-2.6	3114.68	2990.81	3216.33	3.11	2.60	2.61	15.41	79.87	1733.27
43 Media(38)	4055.68	-1.4	4112.02	4031.94	4100.55	2.58	2.16	2.13	22.74	84.17	1546.86
44 Retailers, Food(13)	2805.61	-0.5	2820.87	2766.66	2655.54	3.27	2.62	2.17	17.64	62.69	1828.21
45 Retailers, General(49)	1999.10	-0.2	2003.87	1972.69	2290.84	3.82	3.07	2.10	15.64	51.83	1231.08
46 Telecommunications(8)	4622.36	-2.7	4751.80	4718.34	2467.79	1.86	1.54	1.56	43.02	47.70	2267.22
47 Breweries, Pubs & Rest.(24)	3375.13	-3.1	3482.50	3314.40	3233.11	3.66	2.94	2.38	14.40	66.45	1733.66
48 Support Services(65)	4313.09	-1.5	4378.80	4274.06	3331.62	1.44	1.22	2.74	31.55	48.98	2856.94
49 Transport(25)	3425.84	-2.2	3501.52	3501.36	2983.68	3.13	2.62	1.94	20.54	73.65	1541.66
60 UTILITIES(21)	4141.86	-0.3	4155.18	4133.53	3164.90	3.92	3.23	1.77	18.07	101.47	2001.80
62 Electricity(8)	4540.37	-0.8	4577.00	4620.22	3458.77	4.46	3.57	1.88	14.84	113.98	2685.34
64 Gas Distribution(2)	3401.17	+0.4	3385.94	3371.71	2345.54	1.99	1.59	‡	‡	54.02	1982.55
68 Water(11)	3487.81	-0.3	3498.86	3521.43	3012.67	4.95	4.35	2.36	10.70	112.14	2182.86
69 NON-FINANCIALS(623)	2590.18	-2.1	2645.52	2607.64	2336.41	3.01	2.59	1.96	21.18	59.28	2130.75
70 FINANCIALS(105)	4802.33	-2.4	4922.73	4760.72	4468.87	3.43	2.84	2.18	16.72	134.78	2246.45
71 Banks, Retail(12)	7141.46	-2.0	7285.48	7007.65	6584.13	3.58	2.88	2.12	16.48	189.47	2529.81
73 Insurance(15)	2096.76	-6.1	2233.45	2179.94	2033.43	3.37	3.18	2.16	17.04	77.07	1757.57
74 Life Assurance(6)	6791.45	-2.2	6944.42	6710.96	5297.03	2.84	2.45	2.70	16.30	167.30	3061.55
77 Other Financial(25)	3613.57	-2.3	3700.28	3594.84	3345.75	2.99	2.47	2.55	16.38	97.86	2225.22
79 Property(45)	1739.57	-0.3	1745.50	1743.45	2170.42	3.83	3.23	1.59	20.45	41.48	1151.83
80 INVESTMENT TRUSTS(115)	3476.76	-1.5	3531.17	3453.00	3344.77	2.34	1.90	1.18	45.37	56.16	1275.03
89 FTSE All-Share(843)	2532.70	-2.2	2588.70	2539.28	2305.56	3.10	2.63	2.00	20.16	60.49	2320.22
105 FTSE All-Share ex Inv Tr(728)	2540.85	-2.2	2597.50	2548.11	2309.23	3.12	2.65	2.02	19.85	61.25	1197.69
Information Technology	1322.32	-2.8	1360.67	1336.34	-	0.71	0.57	4.08	43.27	6.84	1328.76
FTSE Fledgling	1137.52	+0.1	1136.61	1127.74	1273.87	3.88	3.18	1.40	22.96	31.63	1276.71
FTSE Fledgling ex Inv Tr	1142.16	+0.1	1140.68	1134.43	1292.10	4.25	3.50	1.49	19.71	35.32	1288.62
FTSE AIM	809.9	+0.1	809.0	800.3	995.8	1.20	0.95	0.33	80.00†	9.25	752.37

Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5613.1	5532.7	5544.3	5547.0	5503.6	5503.7	5486.5	5471.7	5614.6	5467.9
FTSE 250	4967.1	4958.3	4942.6	4940.2	4936.3	4936.0	4934.2	4932.8	4968.4	4928.8
FTSE 350	2675.8	2643.0	2646.3	2647.2	2629.9	2628.6	2622.7	2617.0	2675.8	2615.6
FTSE SmallCap	2067.52	2066.65	2063.67	2062.30	2063.34	2062.84	2061.93	2061.40	2068.58	2060.95
FTSE All-Share	2584.86	2554.55	2557.52	2558.22	2542.41	2542.11	2535.66	2530.44	2584.86	2529.09

Time of FTSE 100 Day's high: 9:03:15 Day's low: 16:53:15. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low: 15:57:00. FTSE All-Share 1998 High: 2865.20 (20/07/98) Low: 2168.10 (05/10/98)

Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Primary Health Prop (FTSE AIM); Sedgwick Grp (FTSE 250); RM PLC (FTSE SmallCap); Inserts: RM PLC (FTSE 250, FTSE 350 Lower Yield); Union (FTSE AIM).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	535	523	-30
AMVESCAP	3,809	451	-3
[illegible]			

Based on trading volume for the FTSE 100 constituents [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 5 / Sch)

BELGIUM/LUXEMBOURG (Nov 5 / Frs.)

CZECH REP (Nov 5 / Koruna)

DENMARK (Nov 5 / Kr)

FINLAND (Nov 5 / Mka)

FRANCE (Nov 5 / Frs.)

GERMANY (Nov 5 / Dm.)

GREECE (Nov 5 / Drachma)

ITALY (Nov 5 / Lira)

NORWAY (Nov 5 / Kroner)

POLAND (Nov 5 / Zloty)

PORTUGAL (Nov 5 / Escudo)

SPAIN (Nov 5 / Pta.)

NETHERLANDS (Nov 5 / Fls.)

SWEDEN (Nov 5 / Kronor)

SWITZERLAND (Nov 5 / Frs.)

TURKEY (Nov 5 / Tk Lira)

PACIFIC

JAPAN (Nov 5 / Yen)

HONG KONG (Nov 5 / H.K.$)

INDONESIA (Nov 5 / Rupiah)

MALAYSIA (Nov 5 / MYR)

NEW ZEALAND (Nov 5 / NZ $)

SINGAPORE (Nov 5 / S$)

SOUTH KOREA (Nov 5 / Won)

TAIWAN (Nov 5 / TW $)

THAILAND (Nov 5 / Baht)

AFRICA

SOUTH AFRICA (Nov 5 / Rand)

AMERICAS

CANADA

TORONTO (Nov 5 / Can $)
4 pm close

MONTREAL (Nov 5 / Can $)
4 pm close

MEXICO (Nov 5 / Peso)
12.30pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY NOVEMBER 4 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY NOVEMBER 3 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	193.60	0.5	173.37	142.86	168.02	204.88	0.1	3.61	192.60	172.36	140.36	166.10	204.82	219.98	163.86	212.00
Austria (22)	193.42	0.7	173.20	142.72	167.86	167.73	1.4	2.08	192.01	171.82	139.92	165.58	165.46	253.73	166.45	199.18
Belgium (22)	385.07	0.7	344.82	284.14	334.18	327.05	1.4	2.98	382.47	342.28	278.71	329.83	322.69	398.52	242.42	250.14
Brazil (32)	154.48	2.2	138.33	113.99	134.06	338.60	2.1	2.63	151.16	135.27	110.15	130.36	331.60	269.34	102.68	240.81
Canada (119)	195.75	1.0	175.29	144.44	169.88	216.02	0.9	1.85	193.85	173.47	141.26	167.17	213.99	248.78	159.94	218.12
Denmark (34)	470.84	–0.5	421.62	347.43	408.61	406.45	0.1	1.72	473.37	423.61	344.96	408.23	406.05	537.33	408.26	412.77
Finland (29)	461.73	–0.1	413.47	340.71	400.71	491.97	0.5	1.85	462.32	413.73	336.91	398.70	489.45	506.46	267.59	319.22
France (76)	308.75	2.0	276.48	227.83	267.95	271.10	2.7	2.30	302.56	270.76	220.48	260.92	269.86	345.18	222.06	228.97
Germany (55)	270.83	2.3	242.52	199.85	235.04	235.04	2.9	1.38	264.81	236.97	192.97	228.37	228.37	325.61	208.90	218.13
Greece (35)	287.70	0.7	257.63	212.29	249.68	578.19	1.1	1.51	285.62	255.59	208.14	246.31	572.14	333.20	211.47	–
Hong Kong, China (67)	327.10	1.1	292.91	241.36	283.87	325.20	1.1	4.02	323.43	289.43	235.69	278.92	321.56	389.07	196.64	372.77
Indonesia (26)	34.34	0.0	30.75	25.34	29.81	186.46	3.8	1.71	34.34	30.73	25.03	29.62	179.61	134.79	19.04	134.79
Ireland (16)	478.15	0.1	428.18	352.83	414.96	451.81	0.7	2.10	477.90	427.66	348.26	412.13	448.81	580.44	373.47	381.43
Italy (53)	156.71	2.6	140.33	115.64	136.00	193.21	3.3	1.44	152.67	136.62	111.25	131.66	187.07	184.49	105.79	108.28
Japan (446)	99.53	2.8	89.13	73.45	86.38	73.45	4.1	1.02	96.78	86.61	70.53	83.46	70.53	109.73	76.83	109.06
Mexico (29)	1222.59	4.0	1094.80	902.14	1061.02	13290.31	3.0	1.92	1175.93	1052.32	856.94	1014.11	12898.80	1803.07	787.15	1599.74
Netherlands (27)	480.20	1.7	430.01	354.34	416.74	412.50	2.3	2.26	472.20	422.57	344.11	407.22	403.07	582.38	391.03	407.83
New Zealand (18)	58.22	0.7	52.14	42.96	50.53	57.97	0.4	5.09	57.82	51.74	42.14	49.86	57.76	89.56	45.68	88.57
Norway (38)	244.61	–0.1	219.04	180.50	212.28	248.80	0.6	2.44	244.89	219.23	178.53	211.27	245.46	357.71	181.86	348.81
Philippines (22)	76.21	–4.0	68.24	56.23	66.14	149.63	–4.5	1.03	79.42	71.07	57.87	68.49	156.72	106.98	42.48	98.56
Portugal (18)	261.39	2.3	234.07	192.88	226.85	305.88	1.7	1.05	255.61	228.74	186.27	220.43	300.84	299.39	194.13	–
Singapore (41)	195.70	2.8	175.25	144.41	169.84	146.40	3.0	2.09	190.38	170.37	138.74	164.18	142.13	264.82	102.45	256.98
South Africa (39)	223.53	3.8	200.17	164.94	193.99	272.14	2.7	3.41	215.27	192.65	156.88	185.65	264.90	348.20	151.56	294.71
Spain (30)	369.05	1.2	330.48	272.32	320.28	398.60	1.9	1.98	364.57	328.25	265.68	314.40	389.39	417.73	241.06	253.20
Sweden (46)	488.84	1.7	437.74	360.71	424.23	568.42	2.2	2.06	480.80	430.26	350.37	414.64	555.89	628.19	379.18	482.60
Switzerland (30)	392.74	0.9	351.69	289.80	340.84	333.40	2.0	1.28	389.35	348.42	283.73	335.77	326.85	439.48	307.73	315.85
Thailand (35)	22.48	5.8	20.13	16.59	19.51	31.90	5.5	2.96	21.25	19.02	15.49	18.33	30.23	36.03	8.15	36.03
United Kingdom (205)	362.08	2.0	324.23	267.18	314.23	324.23	2.1	3.02	354.94	317.63	258.66	306.10	317.63	401.84	307.96	325.07
USA (621)	457.85	0.8	409.99	337.84	397.34	457.85	0.8	1.43	454.31	406.55	331.07	391.79	454.31	485.88	368.13	383.27
Americas (801)	408.51	0.8	365.81	301.44	354.52	346.33	0.8	1.45	405.21	362.62	295.29	349.45	343.56	437.03	335.19	349.04
Europe (740)	339.33	1.8	303.87	250.39	294.49	306.75	2.3	2.19	333.44	298.38	242.99	287.56	299.97	386.24	272.02	279.87
Eurobloc (348)	98.15	1.9	87.89	72.42	85.18	92.18	2.5	1.86	96.33	86.21	70.20	83.08	89.91	113.28	81.53	–
Nordic (147)	455.22	0.8	407.64	335.90	395.06	450.98	1.4	1.98	451.82	404.32	329.25	389.64	444.90	555.97	360.04	425.98
Pacific Basin (730)	107.23	2.5	96.02	79.13	93.06	81.91	3.4	1.56	104.67	93.67	76.28	90.27	79.19	120.69	82.88	120.68
Euro-Pacific (1470)	203.65	2.0	182.37	150.27	176.74	166.21	2.6	2.00	199.72	178.72	145.54	172.23	161.97	220.19	166.00	187.11
North America (740)	440.29	0.8	394.27	324.89	382.11	441.26	0.8	1.44	436.86	390.94	318.35	376.74	437.82	469.20	359.18	372.96
Europe Ex. UK (531)	316.56	1.6	283.47	233.59	274.73	289.12	2.4	1.78	311.43	278.69	226.95	268.57	282.47	366.32	242.12	248.63
Europe Ex. Eurobloc (392)	92.67	1.6	82.98	68.38	80.42	91.44	2.0	2.53	91.17	81.59	66.44	78.62	89.65	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	93.57	0.9	83.79	69.04	81.20	88.65	1.8	1.54	92.72	82.98	67.57	79.96	87.05	109.21	75.16	–
Pacific Ex. Japan (284)	181.58	0.9	162.60	133.99	157.58	165.29	0.8	3.68	179.90	160.99	131.10	155.15	183.82	225.22	128.26	225.22
World Ex. Eurobloc (1962)	97.47	1.2	87.28	71.92	84.59	95.96	1.6	1.68	96.27	86.15	70.16	83.02	94.61	103.16	83.09	–
World Ex. US (1689)	203.65	2.0	182.36	150.27	176.73	171.30	2.5	2.01	199.73	178.73	145.55	172.24	167.04	221.91	165.96	191.10
World Ex. UK (2101)	273.29	1.3	249.20	205.35	241.51	247.30	1.6	1.58	274.80	245.91	200.26	236.98	243.47	298.02	234.24	245.99
World Ex. Japan (1864)	378.22	1.2	338.69	279.08	328.23	366.64	1.3	1.79	373.86	334.56	272.44	322.41	362.04	411.23	312.96	325.14
The World Index (2310)	285.47	1.3	255.63	210.64	247.74	254.32	1.6	1.71	281.68	252.07	205.27	242.92	250.26	308.58	241.30	252.72

 PLEASE NOTE: The World Indices quarterly changes are effective 2/11/98. For further information contact FTSE International Limited. CONSTITUENT CHANGES WITH EFFECT 5/11/98: Deletions: Sedgwick Group (UK); MERITA B (Finland). Name change: MERITA A is now MERITA LTD (Finland). CONSTITUENT CHANGE WITH EFFECT 6/11/98: Weighting change: Hellenic Telecom from 25% to 35% (Greece). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

4 pm close November 5

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

116½	68⅝	Xerox	1.44	1.4	73	10032	103	100⅞	101⅞	-1⅞
65¾	37½	Xtra Corp			12	92	44¹³⁄₁₆	44⅝	44⅝	-¼
31	22½	Yankee Egy	1.36	4.5	24	283	31	30¹¹⁄₁₆	30¹³⁄₁₆	
52⅝	27½	York Int	0.48	1.2	22	2107	40½	38¾	40¼	+1⅛
24⅜	6¼	Zapata	0.28	3.3	2	888	8⅝	8¼	8⅜	-⅛
30½	23	Zenith Nat x	1.00	4.1	15	181	25¼	24⅝	24⅝	-1
8⅞	5⅞	Zenix Inc	0.70	10.7		480	6⅝	6½	6½	-⅛
14⅞	8⅞	ZweigFd ♣	1.08	9.4		712	11⅝	11¼	11⅝	+⅜
9⅞	8⅛	Zweig Tot	0.84	9.5		403	8⅞	8¾	8⅞	+⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

ℓ-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 4	Nov 3	Nov 2	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8783.14	8706.15	8706.15	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.53	106.58	106.56	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	2813.38	2818.32	2954.85	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	306.98	307.77	304.87	320.51 (8/10)	262.68 (8/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 8853.48 (8819.18) Low 8680.33 (8691.88) (Theoretical‡)
Day's high 8854.04 (8744.52) Low 8706.47 (8677.58) (Actual‡)

Standard and Poors	Nov 4	Nov 3	Nov 2	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1118.67	1110.84	1111.60	1186.75 (17/7)	927.69 (8/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials♥	1332.99	1326.61	1326.63	1380.48 (17/7)	1077.40 (8/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial♥	122.28	119.79	120.43	147.88 (14/7)	95.80 (8/10)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	565.14	551.80	551.24	600.75 (17/7)	477.28 (8/10)	600.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	665.50	664.42	656.62	753.87 (22/4)	583.75 (8/10)	753.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1823.57	1788.43	1800.91	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (8/10/74)
Russell 2000	392.96	387.56	386.82	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Oct 30	Oct 23	Oct 16	Year ago
Dow Jones Ind. Div. Yield	1.75	1.77	1.78	1.80

	Nov 4	Oct 28	Oct 21	Year ago
S & P Ind. Div. yield	na	1.36	1.36	1.50
S & P Ind. P/E ratio	na	31.32	31.24	25.28

US DATA

■ MARKET ACTIVITY

● Volume (million)	Nov 4	Nov 3	Nov 2
NYSE	861.190	704.320	760.750
Amex	31.113	25.129	25.882
NASDAQ	1,053.99	892.390	893.251

NYSE	Nov 4	Nov 3	Nov 2
Issues Traded	3,531	3,541	3,517
Rises	2,061	1,614	2,308
Falls	1,002	1,420	813
Unchanged	468	507	395
New Highs	80	57	70
New Lows	10	15	18

■ NYSE TRADING ACTIVITY

Volume : 861,190,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Citgrp	17,900,100	44⅝	
BosSci	12,869,100	43⅛	−2⅝
AmOnLne	10,453,800	140⅛	+7⅛
Mirage	9,708,500	38	−4⅞
Cendnt	9,885,200	13⅞	+⅛
Compaq	8,750,800	31⅞	+⅜
Disney	8,819,100	29⅛	−⅞
LucentTch	7,668,900	86⅞	+4⅞
Seagte	7,591,800	29⅞	+2
MicronTech	7,334,800	43⅞	+3⅛

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
CadenceDsgn	25⅞	+5⅞	+28.6
TowrAir	56	+9⅛	+20.4
Inco	12	+1⅞	+13.6
Tyco	20⅞	+2⅛	+11.7
Downs			
Mirage	38	−4⅞	−10.5
BosSci	43⅛	−2⅛	−6.2
Hartmrx	20⅞	−1⅛	−5.8
CBRich	18⅞	−1⅞	−5.8

■ NASDAQ TRADING ACTIVITY

Volume :1,053,990,000

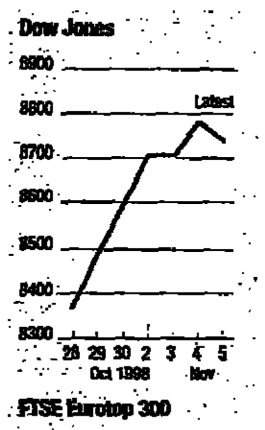
■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Cirrus Cp	27,525,900	17⅞	−⅞
Intel	27,321,900	94⅞	+4⅛
CiscoSys	21,571,200	85⅞	+2⅞
DellCmp	19,800,100	65⅛	+1
Micrsft	16,811,800	105½	+⅞
WrldCm	13,588,900	57⅞	+2
Oracle	13,155,400	30⅛	+⅞
AppMat	10,519,400	35⅛	+2⅛
3Com	9,879,500	34⅞	+⅞
DuraPh	8,779,100	9⅛	−2⅛

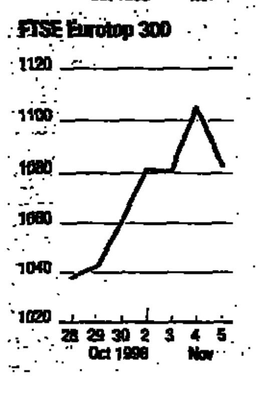
■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
PacGtwy	39⅞	+10⅞	+37.1
HutchTech	27⅛	+5⅛	+24.5
HMT Tch	10⅛	+1⅞	+17.2
Innovex	17⅞	+2⅞	+17.2
Downs			
Pharmcs	18⅛	−2⅞	−11.9
VinctonEnp	15⅛	−2	−11.6
Bidwell. B	20⅛	−2⅛	−10.9
Digi Intl	12⅛	−1⅛	−10.4

Dow Jones



FTSE Eurotop 300



JAPAN

	Nov 5	Nov 4	Nov 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	14341.37	14527.81	(c)	17264.34	12879.97	38915.9	85.25

Day's high 14625.15. Day's low 14190.71.

■ TOKYO TRADING ACTIVITY — Volume : 550,000,000

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Sakura	28,157,000	337	+2
SumTrB	17,054,000	378	+13
FujiBk	12,911,000	519	−19
YasTrB	12,411,000	142	−8
MitTrB	12,340,000	179	+1
Nomura	11,965,000	1047	+46
NKK	11,641,000	82	+1
NpSti	11,456,000	217	−3
BTokM	9,124,000	1210	−17
Hitachi	8,408,000	716	+36

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
CSK	2405	+285	+13.4
Orgn	1382	+142	+11.5
FidemE	400	+37	+10.2
ShkYo	603	+51	+9.2
Downs			
ToaCp	221	−24	−9.8
SanshG	90	−9	−9.8
NCR Jp	604	−56	−8.5
FujiSp	135	−12	−8.2

FRANCE

	Nov 5	Nov 4	Nov 3	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3596.18	3684.16	3583.64	4388.48	2952.54	4388.48	984.61

Day's high 3679.42. Day's low 3589.23

■ PARIS TRADING ACTIVITY — Volume : 738,840,480

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
FrTele	1,910,115	365	−16.6
Axa	1,258,776	668	−1
Elf Aqu	1,181,041	690	−30
Alctel	1,065,977	623	−8
TotalB	1,038,854	679	−48
Usinor	1,013,277	67	−3
RhonPA	922,872	255.5	−6.4
BNP	823,113	359	−18.5
MchlnB	749,816	285	
Schndr	715,224	345	−3

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Sanofi	901	+41	+4.8
Moulinx	97.05	+3.05	+3.2
NrdEst	118.5	+3.4	+3.0
Intrtch	1640	+45	+2.8
Downs			
TotalB	679	−48	−6.6
Valeo	474	−29	−5.8
PinPr	955	−58	−5.7
Eiffage	421	−24.9	−5.6

GERMANY

	Nov 5	Nov 4	Nov 3	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4811.60	4841.72	4705.08	6171.43	3896.08	6171.43	921.18

Day's high 4877.45. Day's low 4769.57

■ FRANKFURT TRADING ACTIVITY — Volume : n/a

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Siemns	884,518	112.4	−1.3
Bayer	580,314	68.45	−1.95
Veba	535,442	96.2	+1.1
Dt Bk	453,557	106.2	+0.85
Dt Tel	418,124	47.5	+1.8
BASF	337,979	67.8	−2.4
Luftsn	336,586	37.3	−0.1
DrsdBk	301,555	66	−1.8
H'chst	298,065	74.7	+2.3
RWE	290,250	91.8	−0.7

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Porsche	3495	+245	+7.5
Hrtz	66	+3	+4.8
HeidZm	135	+6	+4.7
Rueigs	255	+10	+4.1
Downs			
GEA	47.5	−3.5	−6.9
GEA Pf	44.5	−3	−6.3
Dt Bab	82	−5	−5.7
Metro	61	−3.5	−5.4

UK

	Nov 5	Nov 4	Nov 3	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5479.8	5622.9	5603.9	6179.00	4648.70	6179	986.9

Day's high 5625.5. Day's low 5467.9

■ LONDON TRADING ACTIVITY — Volume : 1,082,400,000

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Centrica	57,174,000	107¼	−1¼
Shell T&T	31,349,440	354½	−21½
Br Airways	25,935,083	413	−29
Micro Focus	22,586,370	133¼	−101½
Br Petroleum	22,479,560	914	−4
NFI	22,459,970	33½	−1½
Ryl & Sun	18,924,120	435½	−50½
BG	14,542,020	401½	−31½
Gardex	14,275,000	6¼	−¼
Lowe Alexdr	13,423,710	4½	+¼

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Crest Packing	35½	+15½	+77.5
Forward Tech	16¼	+5¼	+47.7
Britlan	1	+¼	+33.3
ASW Hdg	21½	+4½	+26.5
Downs			
Micro Focus	133¼	−101½	−43.2
Macfarlane Cp	50½	−19	−27.3
MCB Intl	277½	−50	−15.3
REA Hldgs	75	−10	−11.8

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1124.20	1117.70	−6.90	1121.50	1116.50	107,083	391,319
Mar	1131.00	1127.00	−8.10	1131.30	1127.00	782	11,256
■ Nikkei 225							
Dec	14600.0	14260.0	−190.0	14600.0	14190.0	38,503	188,358
Mar	14610.0	14380.0	−0.050	14610.0	14380.0	23	7,579

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	3856.0	3800.0	−95.0	3896.0	3594.0	67,907	205,509
Dec	3860.0	3808.0	−96.0	3899.0	3610.0	5,395	80,217
■ DAX							
Dec	4884.0	4811.0	−87.0	4901.5	4778.0	26,572	81,709
Mar	4928.0	4861.5	−90.0	4933.0	4820.0	161	2,712

■ OMX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Nov	654.00	641.00	−17.50	656.00	638.25	17,528	212,607
Dec	652.00	646.25	−13.75	653.00	646.25	91	2,611
■ SOFFEX							
Dec	6725.0	6570.0	−191.0	6743.0	6560.0	35,725	161,972
Mar	6725.0	6591.0	−166.0	6725.0	6594.0	242	4,735

WORLD MARKETS AT A GLANCE

Country	Index	Nov 5	Nov 4	Nov 3	1998 High	1998 Low	Yield	P/E
Argentina	General	19121.37	19114.05	18873.46	23465.47 23/3	12303.14 10/9	3.4	12.3
Australia	All Ordinaries	2622.4	2579.9	2575.6	2851.40 16/4	2458.26 1/10	3.1	20.5
	All Mining	628.9	622.7	621.7	713.18 23/4	488.89 31/8		
Rises in banks and News Corp outweighed gains in resources sector and Telstra. [illegible]								
Austria	Credit Aktien	(c)	397.02	(c)	584.34 25/5	346.44 8/10	1.9	12.7
	ATX Index	1156.05	1176.92	1163.05	1628.98 25/5	982.06 1/10		
Ended lower with cyclicals like VA Stahl leading the market lower								
Belgium	BEL20	3257.41	3307.72	3282.84	3832.07 20/7	2367.38 10/1	1.7	20.5
Ended lower on profit-taking.								
Brazil	Bovespa	7975.0	7658.0	7509.0	12339.00 15/4	4761.00 10/9	na	na
Pushed higher in early trading.								
Canada	TSE 100	385.55	393.01	385.90	425.63 25/5	324.91 5/10	1.6	18.1
	Metals Mins	3398.86	3397.82	3446.01	4360.01 16/4	2830.10 25/8		
	TSE300Comp	6310.60	6365.00	6298.51	7822.36 22/4	5335.70 5/10		
	Portfolio	2256.84	3289.23	3224.84	3688.81 25/5	2718.24 5/10		
Tracked Wall Street lower in early trading.								
Chile	IPSA Gen	3622.12	3637.56	3529.70	4991.98 17/3	2980.95 14/9	3.5	11.5
China	Shanghai B	33.70	33.59	33.63	58.59 10/2	28.25 13/8	1.5	27.5
	Shenzhen B	63.12	64.12	63.08	98.37 10/2	48.89 13/8		
Zhejiang Power and Daqiang [illegible] Shanghai B shares active [illegible] trading.								
Colombia	IBB	833.19	827.37	824.08	1431.45 7/1	776.17 14/10	na	na
Czech Republic	PX 50	388.0	389.4	388.5	577.30 23/3	318.00 8/10	na	na
[illegible]								
Denmark	Copenhagen SE	813.48	814.83	818.42	778.84 7/4	566.35 8/10	1.7	18.9
Ended lower in spite of interest rate cut.								
Egypt	Cairo SE Gen	362.12	362.93	361.49	385.19 21/4	345.40 2/2	na	na
Finland	Hex General	4478.83	4572.32	4554.34	5908.43 21/7	3220.43 12/1	2.4	15.3
Shares moved lower after the profit-taking [illegible]								
France	SBF 250	2318.73	2384.13	2306.63	2799.73 17/7	1873.10 12/1	2.5	18.4
	CAC 40	3596.18	3684.16	3583.64	4388.48 17/7	2952.54 12/1		
Ended lower, reversing four days on the gains. [illegible]								
Germany	FAZ Aktien	1533.29	1535.74	1514.07	1948.89 20/7	1238.22 2/10	1.5	18.8
	Commerzbank	4592.40	4468.10	4428.70	5712.60 20/7	3590.20 2/10		
	DAX	4811.60	4841.72	4705.08	6171.43 20/7	3896.08 8/10		
Heavy selling of cyclicals [illegible]								
Greece	Athens General	2254.57	2295.05	2273.28	2825.53 21/7	1380.13 29/1	1.9	17.9
	FTSE/ASE 20	1367.81	1435.01	1385.64	1727.13 21/7	795.18 29/1		
Reversed a few [illegible]								
Hong Kong	Hang Seng	10221.88	10668.23	10259.52	11810.93 25/3	6660.42 13/8	3.5	13.8
	HSCC Red Chip	1038.11	1085.61	1136.45	1779.89 23/3	576.97 1/8		
[illegible]								
Hungary	Bux	5954.42	6012.28	5734.79†	9018.96 23/4	3775.02 21/9	na	na
India	BSE Sens.	2842.51	(c)	2812.06	4280.96 21/4	2764.16 20/10		
	Crisil 500	568.84	(c)	564.00	815.92 21/4	557.88 20/10	na	na
Ended higher with 7 per cent rise for TELCO boosting broad market.								
Indonesia	Jakarta Comp.	355.52	330.45	317.18	554.10 2/2	256.83 21/9	3.1	20.7
Weakening rupiah encouraged foreign demand and index reached intraday high of 371.43. Volume was very heavy at Rp840bn.								
Ireland	ISEQ Overall	4427.83	4501.49†	4460.82	6471.61 21/4	3745.11 8/10	2.2	17.2
Israel	Tel Aviv 100	282.24	282.48	281.25	337.43 8/6	249.19 8/10	na	na
Italy	BCI Comit 30	303.82	308.70	298.77	398.80 20/7	248.51 8/10	1.9	23.1
	Banca Com Ital	1282.61	1297.78	1273.78	1654.36 7/4	1083.59 8/10		
	Mibtel General	20542.0	20809.0	20204.0	26377.00 6/4	16761.00 8/10		
Shares lost ground in spite of merger buzz among banks. BCI rose 4.5 per cent.								
Japan	Nikkei 225	14341.37	14527.81	(c)	17264.34 2/3	12879.97 9/10	1.0	43.1
	Nikkei 300	220.85	221.57	(c)	257.43 10/2	192.38 9/10		
	Topix	1104.57	1107.36	(c)	1300.30 10/2	980.11 15/10		
	2nd Section	1085.41	1086.66	(c)	1491.27 12/2	1028.84 13/10		
Newspaper report that government had decided to delay submission of bills to cut housing and income taxes hurt sentiment.								
Jordan	Amman SE	(c)	162.73	163.46	184.52 17/8	160.61 28/10	na	na
Malaysia	KLSE Comp.	438.66	431.70	421.91	745.38 27/2	262.70 1/9	3.3	12.4
Retail demand for small-caps drove market forward. Rises bounced falls more than fivefold with volume a solid M$511m.								
Mexico	IPC	4263.77	4267.73	4127.85	5204.08 2/1	2856.10 10/9	1.6	12.5
‡Edged lower in early trading.								
Morocco	CASA	821.12	814.60	805.32	883.98 1/9	688.57 21/1	na	na
Netherlands	CBS TRtnGen	1196.3	1215.1	1188.1	1480.00 20/7	974.90 8/10	2.3	20.4
	CBS All Shr	672.4	683.0	667.8	845.00 27/7	548.19 8/10		
Weakness for Royal Dutch and Unilever led shares lower.								
New Zealand	Cap. 40	2029.73	1985.81	1959.98	2350.02 20/3	1688.24 2/10	4.9	18.9
Local buying pushed prices broadly higher with notably sharp gains in Carter Holt Harvey and Fletcher targeted shares.								
Nigeria	SE All-Share	(u)	5659.34	5648.80	6504.87 11/2	2236.40 12/1	na	na
Norway	Oslo SE Ind	1683.63	1733.79	1727.24	2370.66 4/5	1350.78 8/10	2.2	12.8
Fell on profit-taking. Norsk Hydro lost 5 per cent.								
Pakistan	KSE-100	857.70	854.77	853.02	1746.31 2/1	786.73 14/7	na	na
Marked time as investors await news from IMF; loan talks with IMF are expected to resume in Islamabad next week.								
Peru	Lima Gen	1199.00	1207.08	1193.35	1989.91 4/5	1159.80 21/9	na	na
Philippines	Manila Comp	1781.60	1714.09	1801.64	2311.42 25/3	1082.18 11/9	1.6	12.6
Poland	Wig	13220.2	13031.1	13161.2	18682.70 11/3	10473.30 9/10	2.2	8.6
Fell as losers outpaced gainers 38 to 9.								
Portugal	BVL 30	4836.10	4873.08	4790.25	6178.80 22/4	3599.09 2/10	2.0	26.7
	PSI 20	11053.56	11142.30	10946.94	14292.98 22/4	8114.51 2/10		
Ended lower in thin volumes								
Russia	RTS	60.37	61.07	59.36	411.61 5/1	38.53 5/10	na	na
Moved lower with power utility UES slipping 2.5 per cent								
Singapore	SES All-S'pore	367.60	366.33	355.93	437.98 19/3	253.20 4/9	2.4	18.4
	Straits Times	1298.52	1301.05	1263.47	1880.75 19/3	805.04 4/9		
Slovakia	Sax	89.28	85.74	89.03	182.48 5/1	85.74 4/11	na	na
South Africa	JSE All Share	6030.7♥	6061.3	5959.0	8358.70 20/4	4694.40 11/9		
	JSE Gold	979.1♥	980.4	990.5	1310.80 8/10	672.80 18/3		
	JSE Indl.	6830.5♥	6887.0	6760.8	9942.70 20/4	5246.90 11/9	4.4	9.4
Little changed at the end of a low volume session.								
South Korea	KoreaCmpEx**	418.20	413.47	407.64	574.35 2/3	280.00 16/6	1.1	21.0
Spain	Madrid SE	800.56	799.99	784.55	947.82 17/7	642.29 5/10	2.0	22.5
Dull session enlivened by late bounce for Endesa on restructuring news.								
Sri Lanka	CSE All Share	510.02	505.46	(c)	789.70 4/5	481.00 3/9	na	na
Sweden	AffarsvarldGen	3062.0	3131.8	3068.1	3895.60 20/7	2411.70 8/10	2.3	18.9
Ended modestly lower. Banks hit be SEBanken downgrade.								
Switzerland	SMI Index	6557.5	6745.4†	6596.5	8412.80 21/7	5126.50 5/10	1.3	21.9
	SPI General	4161.92	4261.78†	4177.56	5237.39 20/7	3311.28 5/10	na	na
Ended lower on modest profit-taking.								
Taiwan	WeightedPr.**	6957.27	6905.32	7071.44	9277.09 2/3	6251.38 3/9	1.6	19.3
Thailand	Bangkok SET	362.08	354.11	343.16	558.92 3/2	207.31 4/9	2.8	61.2
Turkey	IMKB Nat 100	2447.85	2595.26	2407.72	4530.90 16/7	1852.28 8/10	4.3	10.7
Shares reversed a three-day rally, although volumes were light.								
Venezuela	IBC	3881.54	4012.77	3943.03	7858.92 23/3	2884.70 10/9	na	na
Zimbabwe	ZSE Industrial	(u)	5972.46	(u)	8798.71 31/3	5441.85 1/9	na	na
WORLD	FT/S&P World($)	(u)	285.47	281.88	308.82 17/7	242.36 5/10	na	na
	MS Capital Int$	(u)	1070.8*	1054.2	1143.80 20/7	888.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	2984.80	3051.54	2972.82	3670.82 20/7	2433.87 8/10		
	DJ Euro Stx 50	2975.70	3030.34	2952.23	3658.48 17/7	2419.23 8/10		
	FTSE E300	1083.53	1107.09	1080.39	1327.68 20/7	880.55 5/10		
	FTSE E100	2495.47	2554.17	2488.10	3088.91 20/7	2040.91 8/10	na	na
	HSBC Drgn	(u)	(u)	216.08	273.91 26/3	181.71 5/10	na	na
	ING Brngs Emrg	115.08	114.44	111.87	180.08 22/4	86.84 11/9	na	na

* S&P Oct 31: Taiwan Weighted Price 7105.08; Korea Comp Ex 423.44. [illegible] (c) Closed. (u) Unavailable. [illegible] Oct 5: 4795.28 −82.96. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ✤ Yields and P/E ratios are based on Datastream Total Market Indices. ✤ Midsession.

THE NASDAQ STOCK MARKET

4 pm close November 5

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

THE NASDAQ STOCK MARKET

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close November 5

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

EASDAQ

[illegible]

Company	Bid price	Change on day	Volume	High	Low
[illegible]					

STOCK MARKETS

Rally marks time as investors book gains

WORLD OVERVIEW

Investors in Asian and European markets stepped back yesterday, judging the time was right to book some of the profits accumulated during the rally that began in early October, *writes Michael Morgan.*

Wall Street, too, made an uncertain start, although it had clawed back some of its losses by midsession as the US government confirmed the accuracy of weaker-than-expected non-farm payroll data, mistakenly released on the internet a day early.

The mood, however, remained cautious as US markets took on board comments by Federal Reserve chairman Alan Greenspan to the annual meeting of the Securities Industries Association.

Tokyo and Hong Kong led Asia broadly lower, although an influx of foreign investment sent Jakarta almost 12 per cent higher at one stage.

The Nikkei had looked vulnerable after Wednesday's 4 per cent surge and it succumbed after reports the ruling party was to delay until January the submission of bills to cut income taxes and taxes on housing.

Hong Kong was a sharper loser as a series of China-related share placements looked increasingly indigestible.

Asian markets were ripe for a pull-back after a rise of more than 30 per cent in dollar terms since their low for the year on October 6.

But that should not prevent further substantial rises in some of the markets in coming months, according to Markus Rosgen at Morgan Stanley Dean Witter.

He sees further rises of between 20 and 30 per cent in the next five months in Hong Kong, Singapore and Thailand, due mainly to a rapid fall in global interest rates and in spite of a continuation of Hong Kong's relatively high real inflation-adjusted borrowing costs.

In Europe, a larger-than-expected half-point cut in UK base rates and the 25-basis-point reduction in key rates by the Danish central bank served only to highlight news that the Bundesbank had resisted pressure from members of the new centre-left German government and was leaving rates unchanged.

The Bundesbank's stance came as little surprise, but it did serve to bolster the D-Mark against the dollar, yen and sterling.

But in equities, profit-taking pulled all the leading markets back after their 21 per cent rally in dollar terms since early October.

Switzerland was the day's biggest loser, with a tumble of 2.8 per cent. However, many dealers were quite content to see the day's retrenchment in what was increasingly looking like an overbought market.

Blue chips hit as Dow bears selling brunt

AMERICAS

US shares ran into profit-taking in the early part of the day with blue chips taking the brunt of the selling, *writes John Labate in New York.*

On Wednesday, enthusiasm about election results helped to spark buying in nearly all sectors. But a mildly cautious tone took hold yesterday as investors skimmed off profits following the market's recent rallies.

By midday, the Dow Jones Industrial Average was down 19.83 or 0.23 per cent at 8,763.31. The broader Standard & Poor's 500 index slipped 2.01 to 1,116.66. Declining shares led advancing ones by a 14 to 13 margin on the New York Stock Exchange.

Stocks were helped off their morning lows by a speech on global finance by Alan Greenspan, the Federal Reserve chairman.

Leading the sell-off among Dow component shares, Boeing dropped $1¼ to $39¾ and Caterpillar lost $1⅛ to $48¾. But Walt Disney gained $⅞ to $29⅞.

High-tech shares were mixed. Cisco Systems rose $1⅜ to $67⅞ after the leading networking products maker released quarterly results. Cisco also said it had completed the acquisition of Summa Four.

The Nasdaq composite, which is weighted in technology shares, fell 1.78 to 1,821.79. Small-cap shares were also flat. The Russell 2,000 index was down by less than one point to 392.58.

Microsoft shares rose $1 7/16 to $106 11/16 after the software leader announced an $80m investment plan. Dell Computer was down $⅝ to $65⅞.

Among the morning's risers, K-Mart surged 5.5 per cent or $⅝ higher to $15⅞ after the retailer released October same store sales figures.

Barnes & Noble shares fell $⅞ to $30⅞ a day after the company appointed a new chief executive of its online bookselling site.

Banking shares were mostly higher, with Chase Manhattan up $1 to $59 and Citigroup gaining $⅞ to $44⅞. Wells Fargo gained $1⅞ to $39⅝ after Goldman Sachs added the stock to its recommended list.

The benchmark US Treasury long bond was down 5/32 to 102 11/32, lifting yield to 5.341 per cent a few hours after the mistaken early release of employment data.

TORONTO was hit by profit-taking after the recent gains, and the TSE 300 had lost 67.36 or 1 per cent at 6,298.40 by midsession.

Of the 14 sub-indices, 11 lost ground. Banks and conglomerates led the declines, with the financial services sub-index down 2.7 per cent and conglomerates 3.6 per cent. Bank of Montreal fell C$2.75 to C$61.70 while Royal Bank of Canada dropped C$1.65 to C$70.10.

Traders said investors were switching from interest rate-sensitive stocks to domestic-oriented and mining issues. Golds and precious metals were higher. Barrick Gold rose C$1.05 to C$34.50 and nickel miner Inco C$1.25 to C$19.45.

Takeover target Provigo, the food retailer, was the most actively traded, adding C$0.30 to C$14.90 in good two-way trading volume.

Vote lifts São Paulo

SAO PAULO traded sharply higher in mid-afternoon trade as investors continued to take heart from the government's pension reform victory in Congress on Wednesday.

The vote was also said to have prompted renewed foreign investment flows into the market.

The Bovespa index was 259 or 3.4 per cent higher at 7,915, extending its strong gains of the previous three sessions.

On Wednesday, the government successfully defeated three opposition amendments to the country's long-delayed bill to reform the pension system.

The move was seen as a test of the government's ability to push ahead with other reforms and cost-cutting steps included in its $84bn austerity plan announced last week.

MEXICO CITY posted moderate losses in early deals after its four-session rally. The IPC index lost 34.94 to 4,232.88.

Frankfurt falls as rates held

EUROPE

A broker downgrade for cyclicals managed to push **FRANKFURT** lower on a day when investors also showed disappointment at the Bundesbank's failure to reduce interest rates.

The benchmark Xetra Dax index slipped back through the 4,800 level to close electronic trading at 4,795.28, off 82.96 on the day.

Cyclicals fell steeply after Morgan Stanley Dean Witter took a sideswipe at the sector, downgrading MAN, Preussag and Thyssen in Germany and infecting sentiment across a broad swathe of manufacturing stocks.

MAN led the rout, tumbling DM37 or 6.2 per cent to DM491 with sentiment also hurt by disappointing four-month sales and hints from the company that it was prepared to spend "several billion marks" on an acquisition, which could be financed by fresh equity.

The FT Eurotop 300 Index fell 23.57 to 1,063.53
See Euro Prices, page 31

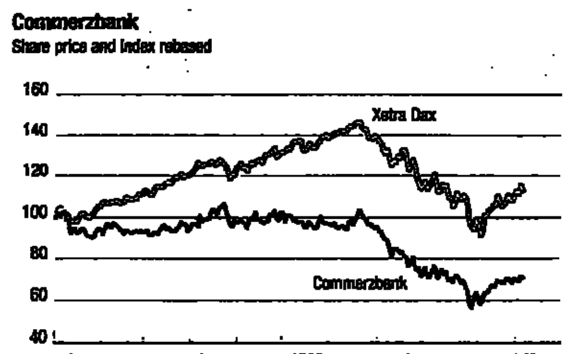
The broker said a recent field trip had convinced its analysts that the recent strength of German capital goods shares had effectively been a false start. Preussag fell DM35 to DM584 and Thyssen came off DM11.90 at DM297.10. Mannesmann lost DM5.40 at DM170.50.

Banks, a better market lately on hopes for an official easing in money costs at yesterday's Bundesbank meeting, moved lower. Dresdner fell DM2.53 or 4 per cent to DM66 and Commerzbank shed 70 pfg at DM50.20 ahead of next week's results.

Siemens ran into modest profit-taking in spite of a round of broker upgrades for the shares in the wake of Wednesday's restructuring news. The shares initially pushed up to DM117.70 before settling at DM112.45, off DM2.20 on the day.

Leading utility Viag was steady ahead of Monday's nine-month results statement, adding 25 pfg to DM1,119.50.

PARIS gave up 87.98 at 3,596.18 on the CAC-40 index in good volumes which lifted turnover to FFr13bn. Sanofi was a rare firm feature, rising FFr41 to FFr901 following an upgrade to "strong buy" at Morgan Stanley Dean Witter.



The broker also raised its target price at Accor to FFr1,400 from FFr1,250, although the hotels leader dipped FFr1 at FFr1,259.

The latest cold douche of bad news from the oil sector, weak earnings from the Shell group, sent Total and Elf Aquitaine steeply lower. Elf fell FFr30 to FFr690 and Total FFr48 to FFr679.

France Telecom came off FFr16.60 at FFr366 on speculation that the government was set to sell off a further 12 per cent of the company, possibly as early as next week.

ZURICH headed lower although many dealers welcomed the pull-back, saying that it was correcting an overbought market. The SMI closed 187.9 or 2.8 per cent lower at 6,557.5.

Swisscom, the beneficiary of a raft of positive recommendations in recent days, put on SFr11 to SFr483 as ABN Amro weighed in with a six-month share price target of SFr530.

The bank said the share, floated at SFr340 on October 5, had outperformed the local market by 9 per cent and the EU sector by 21 per cent. But it was still at an unwarranted discount to the Swiss 10-year bond and its European incumbent peer group.

Swatch, sharply higher on Wednesday on the sale of its stake in the Smart car project to Daimler-Benz, gave back SFr24 to SFr777.

Food group Nestlé came under pressure from a large sell order, falling SFr64 to SFr2,915.

AMSTERDAM ended lower with disappointing results from Royal Dutch helping to depress the AEX index by 14.97 to 1,044.84.

Royal Dutch fell Fl 2.30 to Fl 91.20 on weak third-quarter results. Unilever came under pressure too after negative broker comment ahead of today's third-quarter figures. The shares lost Fl 5.90 or 4.1 per cent at Fl 139. Publisher VNU came off Fl 4.50 or 6.1 per cent at Fl 69.50.

Software group Baan jumped Fl 2.30 or 10.3 per cent to Fl 24.60. Employment agency Ranstad improved Fl 2.90 to Fl 110 in spite of news of a share issue to finance the purchase of Strategix of the US.

A last-minute flurry of activity surrounding Endesa failed to boost **MADRID** which closed almost unchanged with the general index up 0.57 to 800.56.

Endesa and its units were suspended from trading following reports of restructuring. Endesa, which plans to take over its listed subsidiaries via share swaps, then jumped Pta65 to Pta3,655.

MILAN closed lower in thin trading, with the general index down 267 or 1.3 per cent to 20,542.

Merloni closed up L772 to L9,800 after being suspended limit-up for the second consecutive day. Investors rushed to buy the shares after the government announced plans for an incentive scheme to encourage purchases of domestic appliances.

HELSINKI retreated in tandem with Nokia and the Hex index fell 93.49 or 2 per cent to 4,478.83.

Nokia lost FM6.50 or 1.4 per cent to FM461 on profit-taking. Raisio, the food group, declined FM3.20 or 5.6 per cent to FM53.70 on uncertainty over the US launch of its anti-cholesterol margarine, Benecol.

The US Food and Drug Administration could stop the marketing of Benecol as a dietary supplement.

Written and edited by Jeffrey Brown, Emiko Terazono, Peter Hall & Caroline von Loewenich

Jo'burg hit by profit-taking

SOUTH AFRICA

Profit-taking after a strong rally on Wednesday depressed South African shares, with the overall index closing down 30.6 at 6,030.7. Financials were almost flat, adding 0.1 per cent, while the gold index added a marginal 0.1 per cent in the face of steady bullion prices. Industrials fell 0.8 per cent. Specialised Outsourcing, the IT group, gained 230 cents to R32.80.

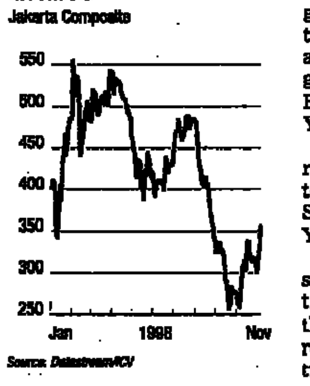
Weaker rupiah boosts Jakarta

ASIA PACIFIC

The weaker rupiah and lower interest rates on benchmark central bank certificates sent foreign investors rushing to buy in **JAKARTA**, driving the composite index up more than 12 per cent at one stage.

Profit-taking pared gains but the index still closed 25.07 or 7.6 per cent higher at 355.53. Turnover soared to Rp839bn, compared with the recent daily average of Rp300bn.

Foreign funds snapped up Telkom, sending the share Rp175 higher to Rp2,450, and Indosat, which jumped Rp1,325 to Rp11,000.



TOKYO succumbed to profit-taking following Wednesday's 4 per cent gain, *writes Michiyo Nakamoto.*

Investors were also disappointed by the likelihood that government plans to cut taxes and stimulate the economy would be delayed due to a tight Diet schedule. Analysts said Tuesday's euphoria over the report that Morgan Stanley had raised its weighting in Japanese equities was overdone.

The Nikkei 225 average slipped 186.44 to 14,341.37 while the Nikkei 300, which is weighted by capitalisation, fell 0.72 to 220.85. The Topix index of all listed shares eased 2.79 to 1,104.57.

New York's overnight gains failed to cheer the market which was dominated by profit-taking in issues likely to be hit by a delay in tax cuts.

Construction and real estate lost ground, with Ohbayashi declining Y6 to Y518 and Mitsui Fudosan, the property developer, falling Y13 to Y885.

Financial institutions were heavily traded with mixed results. Sakura Bank, the most actively traded issue, closed up Y2 at Y337, while Sumitomo Trust Bank gained Y13 to Y378 in heavy trading. However, Fuji Bank and Yasuda Trust were targets of profit-taking with Fuji falling Y19 to Y519 and Yasuda Y8 to Y142.

Securities companies remained on the uptrend due to short-covering. Nomura Securities advanced Y46 to Y1,047 in heavy trading.

Some exporters were sought on indications that the yen's strength against the dollar had eased. Hitachi rose Y36 to Y716 in active trading.

Trading volume slipped to 569m from 687.85m. Losers led gainers 668 to 463 while 162 issues were unchanged. In Osaka, profit-taking failed to erase all the day's gains and the OSE Average closed up 59.82 at 14,861.98.

HONG KONG was hit by a series of share placements by red-chip companies which triggered long-awaited profit-taking. The Hang Seng index finished 286.27 or 2.7 per cent lower at 10,221.98 in turnover that fell to HK$7.9bn.

The red-chip Hang Seng China-Affiliated Corporations index dived 5.3 per cent, while H-shares eased 2.4 per cent. Among declining blue chips, Hutchison dropped HK$3.75 or 6.4 per cent to HK$55, while HSBC turned back from a high of HK$193.50 to close HK$2.50 lower at HK$186.50.

WELLINGTON rose to a three-month high on strong domestic demand for blue chips. NZ Telecom jumped 30 cents to NZ$8.42 and Fletcher Challenge group stocks were also active following news of a UK disposal. Fletcher Paper added 9 cents at NZ$1.46.

The broad rally, which took the 40 capital index up 63.93 or 3.3 per cent to 2,029.73, allowed Carter Holt Harvey to shrug off disappointing results with a rise of 12 cents to NZ1.85.

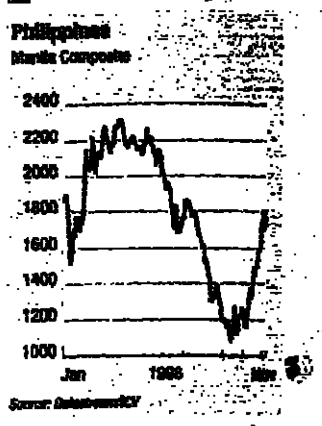
SYDNEY ran into selective profit-taking, prompted partly by some negative dividend news from NAB, which ended 19 cents lower at A$21.85. Elsewhere among banks, ANZ fell 23 cents to A$9.61. Telstra was the day's most heavily traded stock, adding 7 cents at A$6.57.

BANGKOK rose for the fourth day running in high turnover led by bank and finance stocks. Banks surged 6.3 per cent and finance stocks 8.7 per cent. The SET index rose 7.97 or 2.2 per cent at 362.06.

EMERGING MARKET FOCUS

Manila shows its star quality

Two months ago the Philippine stockmarket was languishing with few signs of a rally on the horizon. Since then the market has turned in one of the region's best performances with a liquidity-driven bounce.



After hitting a near seven-year low of 1,082 on September 10, the traditionally volatile PSE 30 index has risen 66 per cent to 1,761.

Analysts said part of the rally had been driven by improvement in regional confidence and currencies, but local factors were at least as significant.

While little has changed in the subdued outlook for corporate earnings or the economy, analysts said rising liquidity following rate cuts had spurred buying by domestic investors.

The market had also been boosted by the strong peso, increased confidence in the resilience of the Philippines economy and even an improvement in investor sentiment towards President Joseph Estrada.

"Confidence and liquidity has driven this rally. Nothing fundamentally has changed much," said Colbert Nocom, research director at ING Barings.

Analysts said the Estrada factor had loomed large over the market during the former movie star's first 100 days in office. By most accounts, the president had made a somewhat unpresidential start to his term with a series of gaffes.

Analysts said investor perceptions on Estrada had started to improve after his co-ordination of the revival of Philippine Airlines and a well-received keynote speech at the World Economic Forum in Singapore last month.

"The Estrada factor is still there, but much less than it had been," said Nocom. "The locals have a greater sense of the improved performance as it is much easier for them to assess what he has been doing than for foreign investors at a distance."

John Mangun, director of portfolio management at IB Gimenez Securities, said many stocks had been fundamentally undervalued before the recent rally.

Ayala Corp, the blue-chip conglomerate with interests from telecoms to banking, was a case in point. Since October 1, the stock has more than doubled to 10.5 pesos.

The market also has been supported by firmness in Philippine Long Distance Telephone amid intense takeover speculation surrounding the company. The Philippines' dominant telecom accounts for 17 per cent of the PSE Index. Since the index's low point on September 10, the stock has risen 35 per cent to 975 pesos.

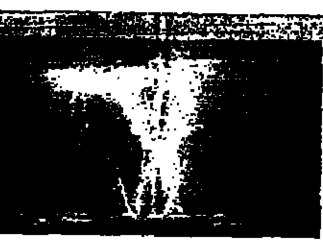
The main question now is the sustainability of the rally after such a sharp rise.

Alexandra Connor, director of research at Indosuez WI Carr Securities, said the market now appeared expensive, trading on a 1999 price/earnings multiple for the PSE 30 Index of 14 times.

"If you look at the fundamentals, it has to come back a bit and we should see some weakness starting to come through. However, fund flows could push the market higher," she said.

Tony Tassell

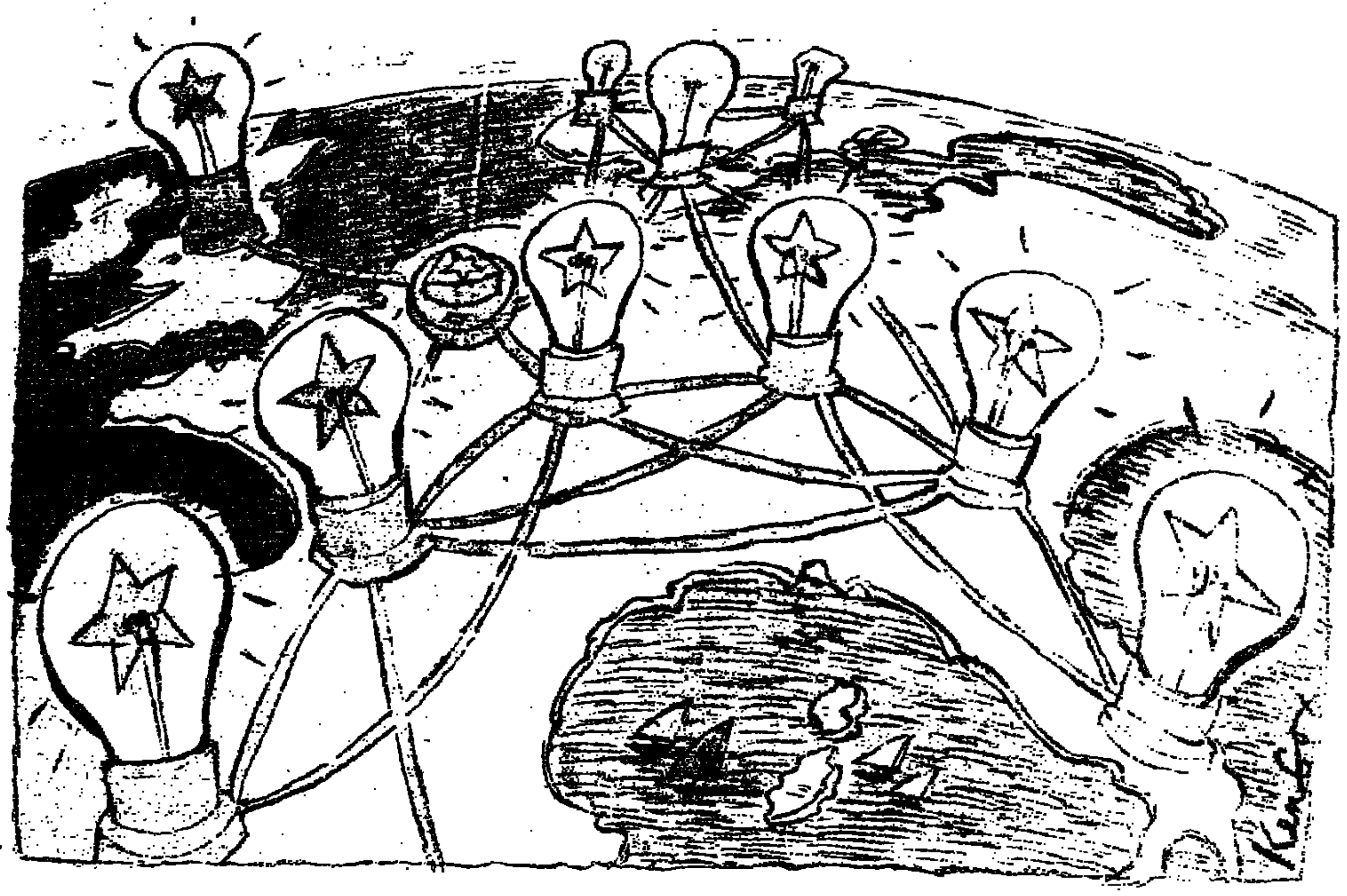
Wide open grid
Gearing up for electricity deregulation: Pages 2-4



Lightning strikes
US companies charge into open markets: Page 5

No need to cry
Not everyone despairs in Latin America: Page 8

Race for pole hots up as EU light goes green



Governments, national power giants and independent energy companies are all, says **Andrew Taylor**, jockeying for position in advance of European electricity liberalisation

Competition in most European Union electricity markets goes live on February 19 next year. The move marks the first step towards a Europe-wide power market, offering customers the prospect of lower prices and improved services.

Member countries must open at least 25 per cent of their electricity market to new suppliers under an EU directive signed in 1996. The only exceptions are Greece and Ireland, which have been allowed to delay implementing the directive by two years. Belgium, which had been given a 12-month dispensation, has decided not to wait and has brought forward the start of competition to next year.

By 2006, countries must have opened at least a third of their electricity market to competition. In the first phase industrial and commercial customers using more than 40GWh a year will be able to exercise choice. But, this phased introduction of competition, will end the monopolies of national and regional power suppliers. Competition will encourage lower prices, enabling industry and commerce to compete more effectively in international markets, says the European Commission.

The impact is already being felt as jockeying has begun among large European electricity companies seeking to break into neighbouring markets as well as trying to preserve previously protected home sales.

Groups such as Electricite de France (EdF) the French state-owned electricity generator and supplier; Imatran Voima (IVO) of Finland; Vattenfall of Sweden; RWE of Germany; Tractebel of Belgium; National Power and PowerGen of the UK and Endesa and Iberdrola of Spain have bought or are seeking acquisitions and joint ventures in other EU countries.

Three companies, EdF, RWE and British Energy, the UK nuclear power generator, have been short-listed with Singapore Power as potential purchasers for London Electricity, the supplier to 2m customers in the English capital. The successful bidder is likely to have to pay more than £2bn to buy the company from Entergy, its US owner.

Francois Roussely, EdF's chairman, last month announced plans to double the value of the group's overseas investments to FFr30bn by the end of the century. Much of the new investment will be spent in Europe, says Mr Roussely.

Recent purchases by EdF include a 25 per cent stake in Energie Steiermark (Estag) from the Austrian province and a 29 per cent stake in a combined cycle gas plant, Puertollano, in central Spain in partnership with Endesa and Iberdrola the Spanish power producers.

Utilities, faced with increased competition in home markets, are looking to diversify as well as increase their international exposure. In the UK, broadly based energy groups such as British Gas and Eastern Energy are offering customers dual fuel, electricity and gas contracts. ScottishPower offers gas, electricity, water and telecommunications services to its customers.

RWE, the German multi-utility, has mining, energy and telecommunications businesses. Tractebel, the diversified Belgian utility and industrial group which owns 39 per cent of Electrabel the country's largest electricity producer, controls more than 11,000MW of international capacity, almost as much as it owns inside Belgium.

The commission estimates that customers representing 60 per cent of EU power markets will be able to exercise choice when the directive is triggered in February – way ahead of the minimum 25 per cent requirement.

Countries such as Sweden, Finland, and the UK will offer full competition by the end of next year. Others, such as France, will be more restrictive, sticking close to the minimum requirements.

The directive permits governments a great deal of latitude on how they introduce competition. Its wording represents a compromise between countries, such as Germany and Britain, which wanted greater competition and those, such as France, which sought to protect the position of powerful state monopolies.

The directive offers two routes to wider competition:

- Negotiated third party access would allow customers to buy electricity freely from domestic or foreign generators. A fee is paid to an independently managed distribution network for carrying the electricity.
- A single buyer system is more restrictive. It permits a designated national electricity buyer to retain control of the national grid and its own generating capacity as well as acting as an intermediary in contracts between generators and suppliers.

Critics argue that a company such as EdF, which will retain ownership of the French transmission network, will learn the prices charged by competitors and undercut them.

The commission and EdF insist such fears are groundless. The directive requires enforced separation of commonly owned transmission and supply operations, under separate managements using separate accounts. This will ensure transparency and fairness of treatment, say officials.

Companies, even where full competition is technically available, may not find it easy to compete against former national and regional monopolies, which will continue to wield enormous market power.

Germany, as an interim measure, is allowing its hundreds of municipally-controlled distributors to adopt single buyer status, which will make it difficult for competitors to break into local markets. Many other customers will continue to be supplied by their existing national or regional electricity company.

Another potential obstacle to wider competition is "public service clauses". These allow governments to protect domestic power markets if the introduction of competition can be shown to conflict with environmental needs or pose a threat to security of supply.

Transitional arrangements, proposed to protect German and Spanish coal markets, permit the state to provide incentives to coal burning generators. Governments may also restrict construction of new capacity. Britain recently imposed curbs on building gas-fired power stations to protect its coal market while new electricity trading arrangements are introduced.

"Whilst the directive does set the framework for greater competition in the supply and generation of electricity, it does not signal an immediate change in utility operating environments. It fails to outline a common system of transport fees, permits transitional arrangements and is generally a rather ambiguous document," says Lakis Athanasiou, head of global utilities research at Commerzbank.

"The strong commercial positions of many incumbents and the unwillingness of governments to sacrifice large employers and tax generators to competition should preserve the value of the existing companies."

The prospect of competition is having an impact and not just in increased corporate activity, says Commerzbank. It points to growing European investment by independent power producers, such as the giant Enron group of the US. Further spending by independents is likely to be encouraged by industrial customers seeking an alternative to their current monopoly supplier.

Transmission businesses can expect tighter regulation as competitive pressures increase. Power trading is also likely to increase, as industrial and commercial customers, already accustomed to dealing in financial derivatives, become more sophisticated. Power markets like Nordpool in Scandinanvia, which provide short-term and futures trading in electricity, may provide a model.

The UK is in the process of overhauling its wholesale trading arrangements to bring them more into line with other commodity markets. German stock exchanges at Dusseldorf, Frankfurt and Hanover are also considering ways of introducing a new market to deal in power contracts following liberalisation of the country's electricity sector.

Increased price competition, tighter regulation of transmission networks and the introduction of new market instruments will squeeze utility margins, says Mr Athanasiou.

Domestic power prices in the UK have fallen by an average of 8 per cent in markets where competition has begun to be introduced, according to Professor Stephen Littlechild, the industry regulator. By next June, all 24m UK domestic customers will be able to choose a new electricity supplier, increasing price competition.

EdF has responded to the prospect of the competition in its home market by reducing prices by 10 per cent since 1996. It plans a further 5 per cent reduction by 2000.

There is wide variation between power prices in different countries, which seems likely to narrow as markets become more competitive. A recent survey of the European utilities sector by Warburg Dillon Reed reported an 80 per cent spread between the highest and lowest industrial power prices. Italy, Germany and Austria had the most expensive electricity prices and Finland, France and Denmark the cheapest. "European competition will mean some convergence of prices," concluded the survey.

The introduction of competition may also encourage further privatisation as governments seek to raise funds and to promote lower power prices and improved efficiency. For the time being, state owned giants such as EdF and Enel of Italy will find themselves competing against European and US private sector energy groups seeking to make headway in new markets.

The commission takes the view that even if the door of competition, initially, is only ajar, it will quickly be swung wide open by market forces.

UNITED KINGDOM by Andrew Taylor

The wide open spaces

The liberalisation directive is building on the changes wrought by privatisation to provide one of the most accessible electricity markets in Europe

The British electricity market, already one of the most open in Europe, is experiencing its biggest period of liberalisation since privatisation in 1990.

Competition for all of the country's 24m domestic customers is due to be introduced by next June. And new trading arrangements have been proposed to reduce the price-setting power of large generators, which will be required to sell some of their power stations to boost competition.

Meanwhile, Peter Mandelson, trade and industry secretary, has ignored the advice of competition authorities and allowed Powergen, the country's second largest fossil fuel generator, to buy East Midlands, the country's third largest power supplier, for £1.9bn.

PowerGen, in return for being allowed to complete the deal, has offered to sell 4000MW of its 13,628MW capacity. The Office of Fair Trading had recommended that the bid should be investigated by the Monopolies and Mergers Commission.

Takeover activity looks set to increase sharply as British and continental European utilities queue up to replace US energy groups seeking to withdraw from the UK market.

In August, Entergy of the US announced plans to sell London Electricity, bought for £1.3bn in December, 1996. The short list of bidders is thought to include British Energy, the nuclear power producer, Electricité de France, the state-owned power producer, RWE, the large German telecoms and energy utility, and Singapore Electric.

Southern Electric and Scottish Hydro-Electric recently announced plans to merge to create one of the country's biggest energy groups with a combined market capitalisation of more than £4.5bn.

Electricity and gas companies, meanwhile, have begun to break into each other's markets as domestic competition has spread. Centrica, which trades as British Gas, has already signed up 500,000 domestic electricity customers.

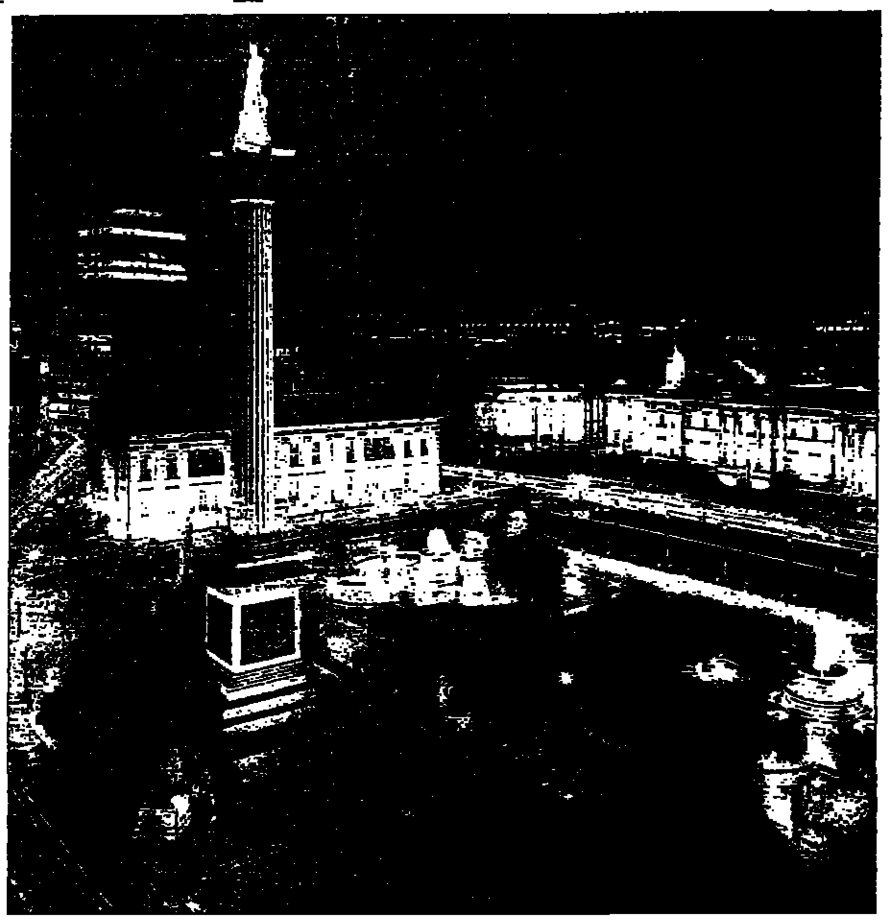
The phased introduction of competition for all 24m domestic electricity customers is due to be completed next June. The move echoes events in the gas industry, whose 18m customers can already choose a supplier other than British Gas.

Non-utilities, such as supermarkets and financial services groups, have begun to take advantage of the new markets by offering energy-linked products to their customers.

Alliance and Leicester building society, for example, is offering homeowners mortgages with up to three years of free gas and electricity through a joint venture with London Electricity.

A study this summer by accountants PricewaterhouseCoopers found that at least half of potential new electricity suppliers are considering selling power alongside retail and financial services products once competition is introduced.

Eastern Group, the country's biggest electricity supplier, already offers price cuts to customers paying with a Barclaycard. Centrica has launched its own credit card with HFC Bank.


Capital market: Suitors are lining up to buy London Electricity

Supermarket group Tesco is offering electricity customers bonus points on its loyalty card as part of a link-up with Norweb. Tandy, the electrical retailer, has teamed up with Yorkshire Electricity while Amerada, the domestic gas supplier, has links with electrical retailer Currys.

Murray MacFarlane, who heads PwC's energy customer management practice, says: "Companies, such as financial service providers and supermarkets, which have already demonstrated the power of the brand from diversifying into new areas will be keen to exploit what is likely to be a dynamic market.

"Even some premier division football clubs have been considering linking with electricity suppliers to sell reduced priced power to supporters."

Increased competition in electricity generation and wholesale power trading is to be promoted through proposed new trading arrangements.

National Power and PowerGen, the two largest fossil fuel generators, will be required by industry regulator Professor Stephen Littlechild to sell some of their under-used coal-fired power stations to encourage competition.

PowerGen, as part of the East Midlands deal, has agreed to sell two coal-fired power stations. Negotiations are continuing between National Power and the regulator.

The government, meanwhile, has introduced temporary restrictions on constructing new gas-fired power stations to protect coal sales while new trading arrangements are introduced by the industry regulator.

The International Energy Agency, the energy arm of the OECD, last month supported British government claims that existing electricity trading arrangements had bolstered the price-setting power of the large generators and unfairly discriminated against coal-fired generation.

Mr Mandelson says the new trading arrangements should reduce wholesale prices by at least 10 per cent and will be more open and competitive in line with those operating in other commodity markets.

Professor Littlechild has proposed that generators, customers and traders make firm cash bids in advance for most of their power requirements as part of a three-tier market which would incorporate:

● A futures market, permitting exchange-based and over-the-counter trading and enable customers to hedge their power requirements several years ahead.

● A short-term market that would allow generators, suppliers and customers to submit bids as little as four hours ahead of each half-hourly trading period. Accepted offers would represent firm financial commitments and would be settled at the prices specified in the offer or bid rather than some uniform price specified by the market.

● A balancing market that would allow supply-side and demand-side bidding within actual half-hourly trading periods to take account of last-minute power needs and supply problems.

The introduction of domestic competition and new trading represent the biggest catalysts for change in the UK market.

Separate moves announced by the government to force public electricity companies to split their supply and local distribution businesses may also encourage takeover activity as regional companies unbundle their operations.

VIEW FROM BRUSSELS

Europe's power summit turns to the next wave

The diplomacy which secured agreement among existing members will be vital in dealings with prospective members

Christos Papoutsis, European Commissioner for Energy, faces a challenging two years with competition for both electricity and gas markets due to be phased in over next year for member countries.

Most EU members will, by next February, be required to open at least 25 per cent of their electricity supply market to competition, rising to at least 33 per cent by 2003.

By June, 2000, countries will have to open 20 per cent of natural gas markets to competition, rising to 28 per cent by 2005 and 33 per cent by 2010.

Getting different countries to agree common terms has been a massive exercise in diplomacy. Critics complain that the directives are too weak, allowing governments too much latitude in how they intend to introduce competition.

Mr Papoutsis, who joined the commission in January, 1995, argues that large electricity users cannot be prevented under the directive from switching to another supplier.

He says that industry and commerce will push at the door of competition to ensure that it opens wider. Some 60 per cent of EU electricity markets will, technically, be open to competition when markets go live in February.

The commissioner faces another big task in ensuring that the energy policies of the next batch of six countries seeking to join the union – Cyprus, Estonia, Poland, the Czech Republic, Hungary and Slovenia – satisfy membership criteria.

Mr Papoutsis acknowledges that progress has been made by the candidates but believes that effort is needed to prepare for EU membership.

Countries negotiating membership need to show that they will be capable of adapting their energy competition policies to accommodate EU directives aimed at the gradual liberalisation of electricity and gas markets.

They will have to show they are capable of making progress in meeting energy efficiency targets as well as establishing 90 days' emergency oil stocks.

Policies will need to be developed to cope with conflicting environmental, economic and regional consequences of coal mining and coal fired power generation.


Loose ends: Poland's Mr Buzek must talk power to join the EU AP

The biggest dilemma will be how to cope with nuclear power plants owned by former communist countries in central and eastern Europe, some of which will need substantial investment to make them safe.

"It is in our common interest to ensure that electricity from nuclear installations is produced according to the highest internationally recognised safety levels," says Mr Papoutsis.

"This is essential for the protection of the life and health of our citizens and also to create a level playing field for the correct functioning of the internal energy market."

Liberalisation of energy sectors, says the commissioner, will "ultimately lead to more energy security, fair competition in our sector and an improved environment".

Existing EU gas and electricity markets have an annual turnover of Ecu 250bn, which will grow as countries join the union.

The so-called "first-wave" countries are due to begin talks with the commission this month on how best to pursue convergence of energy policies to achieve EU membership.

At the heart of the discussions will be security of supply, competitiveness and environmental concerns, described by Mr Papoutsis as "the three pillars of EU energy policy".

He says the introduction of EU directives phasing in competition in electricity and gas markets has "demonstrated that it is possible to square the circle and to reconcile liberalisation with public service obligations".

Liberalisation, he argues, will also create new opportunities for investment from outside the Union, while energy security will be underpinned by "more open and integrated markets increasing flexibility and diversification of energy supply".

The need to develop policies to meet anti-pollution targets established at the Kyoto conference on global warming adds to the burdens facing existing and future EU members.

The commission, in its recent communication on energy efficiency, estimated that by 2010 the potential for EU energy efficiency improvements was equivalent to 18 per cent of 1995 energy consumption.

The commission's recent energy white paper proposed doubling the share of renewable energy in the EU's energy mix to 12 per cent by 2010.

Mr Papoutsis is keen to stress the need for "uninterrupted and non-discriminatory" access to energy transit routes, ensuring security and diversity of power station fuel.

He says: "For energy producers, guarantees for uninterrupted transit on fair terms is crucial for market access. This is the spirit in which we wish to co-operate with transit countries, such as the Ukraine.

"Co-operation at regional level among producers, consumers and transit countries, particularly in relation to the development of the trans-European energy networks, contributes to integration of markets and improves economic and social cohesion."

The commission has established task forces to evaluate the energy sectors and networks in the Balkan and Baltic areas. It also attaches "great importance to the ongoing work in other regions, such as the Caspian and Black Sea areas".

Andrew Taylor

SCANDINAVIA by Emma Moffatt

Shining light shows both good and bad

Progress in the region illustrates the benefits, and difficulties, of liberalisation for the rest of Europe

As the rest of Europe looks north to Scandinavia for lessons on market liberalisation, this forerunner in reform still has some way to go to achieve a truly open and competitive market.

The Nordic market has seen an enormous change, beginning with Norway opening up its wholesale market in 1992. This has been followed by structural changes elsewhere in the region, particularly in Sweden and Finland, leading to a highly liberalised market, well ahead of the European Union electricity directive.

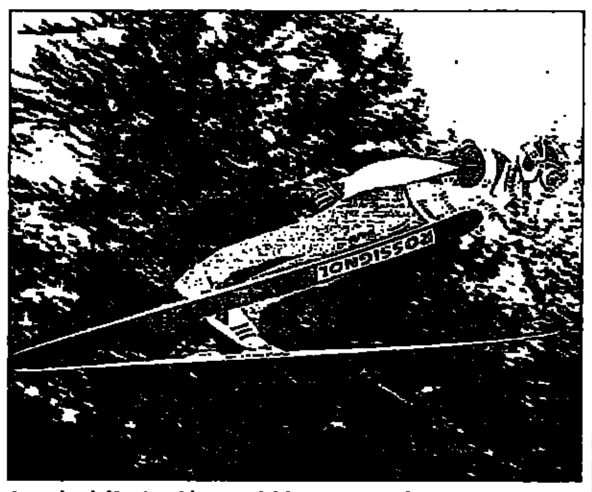
The region's progress is an example to other European countries, partly because of the difficulties it has highlighted. In particular, differences in national regulations have led to distortions, highlighting the need for harmonisation and the creation of a level playing field.

Re-structuring has made markets in Norway, Sweden and Finland open to competition at household level. Participants in these countries can buy, sell or trade electricity on the Nordic power exchange, Nordpool. Created in Norway, Nordpool is now jointly owned by the Norwegian and Swedish grid companies; it also serves Finland and is merging with the Finnish electricity exchange ElEx this year.

It consists of a very liquid spot market for physical trading and a futures market for trading in weekly contracts. Traded volumes in 1997 were 40.6 TWh for the spot market and 42.6 TWh for the financial. And, in addition to Nordpool, there is a bilateral market, four to five times its size.

Opening up the market has created considerable potential for cost reduction and increased efficiency. It has led to mergers and acquisitions, within and over national boundaries. One of the more recent is the merger of two Swedish utilities. Gullspang, owned by Finland's Ivo, and Stockholm Energi. The new company, Birka Energi AB will become the third largest energy company in Sweden, after Vattenfall and Sydkraft.

The new transparent and open market has also led to a number of non-Nordic companies, such as Electricite de France and PreussenElektra,


Jump lead: Nordpool is a model for energy exchanges AP

entering the region, with interests in Graninge and Sydkraft respectively.

But distortions in the market have occurred. Combining generating resources in the Nordic area should lead to their more efficient use, with the baseload operation of gas, coal and nuclear and peaking capability of hydropower. Prices, as a result, should be less volatile but this has not happened. The abolition of border tariffs between Finland and Norway and Sweden should be completed in November 1998 and this should help somewhat. Norway and Sweden abolished their interconnector tariffs in 1996.

Some differences still exist in the level of competition in the Nordic countries.

Theoretically, the Norwegian, Swedish and Finnish markets are completely open. However, in Sweden only a limited number of small customers have changed supplier due to the obligation to fit a meter to continuously monitor demand. This is price capped at 2,500 krona but, along with a requirement to give six months' notice of the intention to switch suppliers, still represents an obstacle to the small consumer. As a result only approximately 20,000 households have changed supplier, compared to as many as 130,000 in Norway.

Meanwhile, Denmark has only just begun to open up to competition. Large consumers and distributors, with demand of more than 100 GWh/yr, will be able to choose their supplier as of April 1998. This, however, only applies to three companies in the Zealand region and seven in Jutland.

Taxation of electrical energy in the Nordic countries varies in terms of structure and level.

In Finland and Denmark the burden falls on the consumer whereas in Norway and Sweden the generator is taxed. This situation leads to distortions in the market as participants cannot compete on equal terms.

Differences in tax levels also have this effect. For example, high levels of taxation in Norway on hydropower at certain times of year can make it less competitive than thermal power from Danish coal-fired plants.

This can result in non-renewable power being bought on Nordpool even though there is spare capacity in the Norwegian hydro system, with negative consequences for the environment.

Sweden has gone some way to implementing structural change, by shifting some of the tax on hydropower generation to the consumption sector. However, there is a long way to go before taxes are harmonised.

Despite these problems, the Nordic market is extremely competitive and open. Nordic countries will continue to see concentration in ownership – Finland still has more than 100 distribution companies – but harmonisation of taxation and the level of competition remains vital if the market is to reach its full potential and remain a model for liberalisation in the rest of Europe.

GERMANY by Derk Bauchnecht

Restriction the way to freedom

The new government's interventionist pedigree is likely to increase regulation and, with it, competition

The Social Democrats and Green Party, the significant element's of Germany's new government, still have a reputation for liking state intervention but they are unlikely to ruin the work of Gunter Rexrodt, the former economic affairs minister, with regard to developing competition in the electricity supply industry.

The new government might adopt a tighter regulatory framework but this does not mean that liberalisation will be strangled. Rather, more regulation seems to be necessary to promote more competition.

The new energy law, put in place by the previous coalition, goes beyond the requirements of the European directive with the complete opening-up of the supply market in April this year.

But competition is still alien to the German power industry. Statutory monopolies have been abolished but the incumbents still own the grid, which makes it difficult both for new companies to enter the market and for customers to switch suppliers.

According to Mr Rexrodt, third party access to the transmission and distribution network is the key to German electricity liberalisation. Yet his government refused to set rules to ensure such access. Mr Rexrodt left it up to industry associations to negotiate access guidelines. And an agreement was reached in April this year, on the basis of which the utilities are expected to publish their tariffs.

But critics argue that the guidelines will lead to prohibitive grid charges. "They are an attempt by the incumbent utilities to protect the status quo," says Lutz Mez, energy policy analyst at the Free University of Berlin.

There are plans to establish a spot market, probably in Hanover, but this would require more transparent and reliable access to the grid.

The Social Democrats are in favour of the government regulating third party access. They have tabled a draft regulation designed to lower grid charges and enable access for small customers and short-term deals. But it is likely to be held in abeyance until the new government has evaluated the current guidelines, which run September 1999.

In the meantime, interested parties are preparing for a more competitive electricity market.

The German power industry is characterised by a large number of companies, more than 500 of which generate electricity. This sounds like a good starting-point for the development of competition but the industry is dominated by eight utilities that own and operate the high-voltage grid, generate about 80 per cent of the country's electricity supply and have a stake in many smaller utilities.

Not surprisingly, there is a consolidation process, and it is expected to speed up. RWE Energie, PreussenElektra and Bayernwerk, the three largest power companies, already have a strong influence on the high-voltage utilities, Hew, Bewag and Veag. An influence encapsulated by east German utility Veag: "Our competitors are our owners."

The two main utilities in the south west, Energie-Versorgung Schwaben (Evs) and Badenwerk merged last year into Energie Baden-Wurttemberg (EnBW), forming the fourth largest utility in Germany. The smart money is on RWE or Bayernwerk taking a bigger stake in EnBW.

But there are some new independent power producers and traders, attracted by the large German market and high electricity prices. Both Vasa Energy – set up in 1996 and partly owned by Sweden's Vattenfall – and the Finnish company Ivo, want to build a 1,200 MW gas-fired plant in eastern Germany.

Experience elsewhere in Europe, notably the UK, suggests that gas-fired combined cycle plants might be the key for new generators to enter the German market. But there is a considerable surplus capacity in Germany and even with gas-fired com-


Switched on: the SPD/Green party alliance will boost regulation AP

bined cycle plants, which have relatively low capital costs, it will be difficult for new generators to compete against coal-fired stations that are written-off already. Only when many old coal-fired plants shut down, in 10 years or so, will it become easier for new generators to enter the German market.

Although there is almost no competition yet, utilities are trying to cut costs. Marketing is becoming more important and many companies are negotiating new contracts with their old customers, offering lower prices. The VIK/Dow Jones price index for industrial consumers, launched in March this year, has continuously fallen from 15,405 Pf/kWh to 14,967 Pf/kWh in September.

In spite of moves to openness, anyone keen to sign a contract with a new supplier might need a good lawyer if the experience of Freiburg is anything to go by.

The town's utility, Few, opted to replace its supplier, EnBW, with Swiss generator Watt but EnBW continues to deliver electricity to the southern German town. Freiburg has cut its payments to the company, suggesting that the courts will be busy soon. Freiburg will fight for its right to switch supplier despite a contract that does not expire until 2014. Watt will fight for its right to use EnBW's high voltage grid to supply its new German customer.

If a big municipal utility has significant difficulties switching its supplier, domestic customers may well have second thoughts. Michaele Hustedt, a Green Party MP, is trying to buy electricity for her flat in Bonn from a wind generator. Vasa Energy wants to act as supplier but it is not clear yet if, and under what conditions, it can gain access to RWE's grid.

But the new government seems determined to challenge the monopolies.

ITALY by David Lane

Continuity promises little in the way of change or progress

The ministers charged with opening the markets have survived into the new government but the obstacles they face are proving equally difficult to shift

Power cut: Mr Prodi's frustrated energy ministers have survived into the new government AP

Two key figures held on to the posts they occupied in Romano Prodi's *'Ulivo'* (olive tree) coalition when Massimo D'Alema, Italy's new prime minister, announced his government at the end of October. Pierluigi Bersani was reappointed as industry minister and Umberto Carpi was kept as Mr Bersani's under-secretary with special responsibility for energy.

This continuity provides evidence of the government's awareness that an important milestone for the electricity sector is approaching and that little time remains to introduce the legislation needed for the start of liberalisation on 19 February next year.

A little more than two years ago, soon after the *'Ulivo'* took office, Mr Carpi headed a commission tasked with identifying methods and priorities for promoting liberalisation and competition between producers. The commission reported in January last year. Among its recommendations were the complete liberalisation of electricity production, the creation of a wholesale electricity market, the institution of a single buyer and the establishment of an independent dispatching and transmission body.

"Because current Italian law is not in line with the European Union's liberalising principles, adoption of the EU directive will oblige the country to introduce important changes in the rules governing operations in the electricity sector," the report concluded. Almost two years later those changes are still awaited.

While the recent government crisis has delayed progress, an even larger obstacle to putting the necessary legislation in place is the sheer contentiousness of electricity liberalisation. The extreme-left Partito Rifondazione Comunista (PRC), whose withdrawal of support brought down Mr Prodi's government, has never hidden its opposition to electricity liberalisation. Former PRC members in, or supporting, Mr D'Alema's government may block the delegated legislation, for which favourable parliamentary opinion is needed.

But the hold-up in legislation has not prevented Italy's energy regulator, which started work in May last year, from tackling some important issues in the electricity sector, including the pricing of the surplus produced by autoproducers (spill-power) and sold to Enel, the state electricity corporation; the thermal fuel price supplement in tariffs; and treatment of the costs of Enel's withdrawal from nuclear power.

Delays in government and parliament are now seriously affecting the regulator's work, however. The small staff at the energy authority, which oversees the gas sector as well as electricity, had hoped to set tariffs for transmission by last October. They will not be announced until this month. There has also been slippage in setting tariffs for tied users, which are expected to be published in February instead of December.

Pippo Ranci, the authority's chairman, says its work is conditioned by what will be established in the legislation implementing the EU electricity directive in Italy. The regulator will only be able to take decisions when he knows that they are consistent with what the legislator has enacted.

Meanwhile, in spite of the uncertainty, Italy's electricity companies are gearing up for next February. State-owned Enel knows that it will have to shed production capacity. The joint ventures announced last year with Eni (the state-controlled energy and chemicals group), Enron and Entergy were aimed at creating companies to operate in the liberalised market. Following Entergy's withdrawal, Enel recently called in an investment bank to help answer the question of what to do with the two plants that were earmarked for that project.

Milan's AEM municipal utility, partly privatised following its stockmarket listing in July, has also decided to pursue opportunities with the large eligible users which will form the liberalised market. AEM's current investment programme – at its Cassano d'Adda thermal plant and in its Valtellina hydroelectric system – and the company's alliances with other electricity concerns are central to strategy.

Not surprisingly, Italy's private sector has been busy. Sondel, the number-two private power producer, inaugurated two new gas-fired cogeneration plants in the second half of October. While output from these plants is dedicated to Enel, Sondel has a project for 700MW plant in southern Italy, for which the construction licence was granted in April. Its output will be sold to the liberalised market. The company recently revealed that it is ready to launch a consortium of industrial users to which it will supply electricity.

Edison, Italy's biggest private power company with more than 3,500MW capacity, is already well advanced in setting up user consortiums. It has two industrial consortia, one in Milan province and the other in Vicenza province, plus a consortium of municipal utilities which will obtain electricity from its recently commissioned Sarmato plant. Enzo Gatta, head of Edison's electricity operations, says the company is discussing two other consortia.

Mr Gatta says that Edison is interested in the power stations that Enel had tagged for its joint venture with Entergy. He does not consider that a joint venture with Enel, a competitor, would be a problem. Liberalisation of Italy's electricity market is likely to create some strange bedfellows.

Meanwhile, in the lobby of Edison's Milan headquarters, a large clock is ticking the countdown to 19 February. Italy's electricity companies are ready. The big question is whether the politicians will have finished their job on time.

FRANCE by Paul Whitehead

Unconcerned as the guillotine looms

A lack of enthusiasm, in government and wider circles, about liberalisation is reflected in the snail's pace of progress

Of all the European Union member states obliged to begin opening their electricity markets on February 19, France is one of the least prepared.

After months of delays the French only recently proposed legislation to begin dismantling the monopoly of the state-owned electricity utility, Electricite de France (EdF), and bring France into line with EU requirements.

The ministry for the economy and industry published its draft white paper in June and opened its proposals to consultation. A final draft emerged in September. The government hopes that this will be approved by the cabinet in November, before finally putting it to parliament in January. Most observers agree that the chances of these proposals becoming law in time for the February deadline are slim.

Even if the deadline is met, there is little confidence that large electricity consumers in France will benefit from competition to the same extent as their EU neighbours.

Under the final proposals some 400 customers whose annual electricity consumption exceeds 40GWh will be free to choose their electricity supplier. Although this only equates to the minimum 25 per cent threshold required by the EU directive, there has been some relief that France has abandoned the previously advocated 'single buyer' approach, whereby consumers would be free to receive their electricity from anywhere in Europe, provided they bought it from EdF.

Two further concessions came when the government agreed to hand over electricity regulation to a semi-independent regulatory commission and to allow regulated third party access to the national transmission grid, which is owned and operated by EdF. This means rival generators and eligible customers have guaranteed access to the grid. Previously, the government had leaned towards negotiated access whereby customers would have to agree to terms and conditions set by EdF in order to gain grid access.

Despite these concessions, there continues to be concern that the French proposals fall short of the required level of liberalisation. In particular, the electricity commission, which is to act as market regulator, will only have limited powers and independence.

Modelled on the existing telecoms regulator, ART, the commission will have three of its members, including its chairman, appointed by the government and a further two appointed by the two chambers of parliament. Unlike the telecoms regulator, however, the body also includes a commissioner who will directly represent the government. Would-be electricity suppliers argue that this is unfair, since the government also owns EdF.

Furthermore, the commission lacks powers to impose sanctions in the case of market abuses. Its role in the resolution of conflicts will be limited to arbitrage prior to referring cases to the government's antitrust body, the competition council, for a binding decision.

The relatively weak position of the regulator is one issue prompting potential rivals to EdF to lobby the government for stronger liberalisation measures. The utility group Vivendi – whose interests include power generation as well as the Generale des Eaux water group and Connex rail services – aspires to enter the French market but has not been encouraged by the government's proposals.

Vivendi's chairman, Jean-Marie Messier, complains that the regulator would neither have the power to authorise new power plants nor impose sanctions "thus leaving control of the market in the hands of the state, which owns EdF".

He reserves his strongest criticism for the decision to allow EdF to maintain ownership of the national grid, saying that this is like "allowing an airline to manage the take off and landing slots at an airport".

However, the government, and most French consumers, are quite happy with the status quo and the pressure for competition is not as intense as in other states where electricity prices are higher. The Jospin administration sees the 50-year-old state owned EdF as a highly successful public enterprise, whose position it has sought to protect when drafting its liberalisation legislation.

Consumers enjoy some of the lowest electricity prices in Europe and are generally supportive of EdF's nuclear programme, which is the most ambitious in the world and has allowed France to reverse its dependence on energy imports over the last 20 years.

EdF shrugs off impending competition, arguing that nobody in Europe can match its prices.

This approach is changing after the appointment of Francois Roussely as chairman in July. Mr Roussely wants EdF to be more customer-focused and is proposing to revive its relationship with the state gas company Gaz de France in an effort to provide its industrial consumers with a package of electricity, gas and steam. This, he hopes, will stem competitive pressures at home while EdF takes advantage of liberalisation elsewhere to expand and confirm its position as Europe's biggest electricity company.

Paul Whitehead is editor of the FT newsletter, European Energy Report

BENELUX by Jeremy Gray

Markets open to almost complete indifference

Moves to free up markets in the region have prompted little excitement

No big bang: markets are not under siege from eager suitors AP

A "big bang" it is not. Since the Benelux countries agreed to free up their heavily-regulated electricity sectors for the first phase of European Union liberalisation next February, the chief activity has been a reshuffle of interests among existing power generators, who are determined to keep a competitive edged ahead of full deregulation next century.

Foreign entrants have found it particularly tough going in Belgium, where the state utility giant commands an 85 per cent market share. Yet a scattering of cross-border deals and joint ventures by newcomers to the Benelux, particularly Enron of the US, are clearly the shape of things to come.

Of the three Benelux nations, the Netherlands offers the greatest potential for foreign rivals due to the fragmented nature of its market. The collapse last spring of a planned merger between four regional energy generators – EPZ, EZH, Epon and Una – has triggered speculation that a merger wave is imminent.

EPZ, which posted a spectacular 75 per cent profits rise in 1997, has been the first in the group to find a partner, agreeing last month to integrate its operations with those of Pnem/Mega Group, the south Dutch energy concern.

Dutch generators are likely takeover targets because they lack the critical mass to survive in deregulated European market. Jeroen Groothuis and Jan van den Berg, analysts at Dutch bank ABN Amro, say it is inevitable they will fall into private hands. Both ABN Amro and ING, the Dutch financial services group, want to invest in the sector and analysts expect foreign power giants – such as Germany's RWE, France's Compagnie Generale des Eaux and Belgium's Electrebel – to follow.

The vulnerability of Dutch power firms explains why the Hague fell into line with the EU directive only last August. The Electricity Act aims to liberalise 32 per cent of power production and supply next year, rising to 100 per cent by 2006.

Unlike its south-western neighbour, the Dutch also plan to privatise 49 per cent of gas and electricity producers and several generators, including Edon, the north-east power supplier, are already making plans to sell part of their equity. To lure future investors, the Dutch economics ministry is allowing electricity firms to pass on Fl10bn ($5.4bn) in loss-making investments to consumers.

Belgium, too, had been engaged in foot-dragging. But, this autumn, the government waived its one-year exemption from the EU directive, following heavy lobbying from Belgium's utilities, large-scale power consumers, the regional Flemish government and the country's publicly-owned municipal power distributors. From next February, 64 large industrial users which consume at least 100 gigawatts per year will be free to shop around. These consumers – mainly steel and chemical firms – account for one-third of Belgium's power market.

However, Jean-Pol Poncelet, the Belgian energy and transport minister, says that the municipal and inter-city electricity distributors will have to wait another 10 years before they can genuinely choose their suppliers. Many of these companies are locked into exclusive supply contracts with Electrebel, the division of state utility holding Tractabel which supplies power to nearly nine-tenths of the market. Liberalisation of the municipal distributors will begin only in 2007, to be completed by 2010.

While the delay obviously favours Electrebel, it also benefits the municipals themselves: they will be free to compete against other distributors on their own turf. Mr Poncelet, however, says this does not go far enough, insisting that there should be a "controlled but progressive lowering" of tariffs to all consumers directly connected to a power grid by the end of 2006.

Unlike the Dutch government, which has set up an anti-cartel watchdog (DTE) for the power sector, the Belgians have yet to announce how it will regulate disputes once the market is opened. Electrebel has benefited from this bureaucratic inertia. The state power giant is actively trying to freeze out rivals by offering shareholdings to significant distributors in exchange for long-term contracts from large consumers.

Electrebel has been expanding abroad, too. The company, which this summer began exporting power to Sweden and Norway, took an 8 per cent stake last July in Cegedel, the Luxembourg generator which supplies two-thirds of the national market. The deal may eventually allow the Belgian company, which already sells electricity to Cegedel and the Luxembourg steel industry, to poach business from German suppliers. Luxembourg has agreed to open 40 per cent of its power sector next February.

So far, however, the fragmented nature of the Dutch market has offered more leeway for newcomers than in Belgium.

Enron, the fast-expanding US power supplier, which has 120-odd deals in Europe, began supplying power to several large Dutch companies this year, including electronics giant Philips, paper firm Parenco and fertiliser concern Hydro Agri, well before the Electricity Act was passed. It was the first time that large users had signed to buy electricity independently from Sep, the umbrella organisation of the four big public generators.

Another manifestation of the new regime is the fledgling Amsterdam Power Exchange, which is closely modelled on Scandinavia's Nordpool. The APX will begin trading spot power contracts next year and may later set up a futures market. Dutch, Belgian and German power supply companies have expressed an interest in becoming APX members, including Belgium's Electrebel.

Views differ on the APX's prospects. While the new exchange will enable generators to fine-tune output and trading to match demand, some critics warn that the slow pace of the market opening will dampen the liquidity. A bigger, more lucrative market beckons right next door, in Germany. In the absence of swifter deregulation, the Benelux power sector will not set foreign investors alight.

SPAIN by Tom Burns

You can please more of the people in less of the time

Keen to show its liberalising credentials, the government has revised the schedule to speed choice

When Spain's centre-right government wants to show off its liberalising credentials it boasts about its achievements in the electricity generating industry and the progress it has made in dismantling the monopoly services of the national telecoms operator.

Opening up the power sector to competition was, from *the start, the more complex* of the two and, in rising to the challenge, the government boasts it has been especially resolute.

A new electricity protocol was legislated two years ago, shortly after the government *of Jose Maria Aznar gained* power. It put the domestic sector broadly in line with the European Union's guidelines for deregulating the industry. The new rulings, like those elsewhere in the EU, set out a programme that would eventually allow consumers to choose between continuing under a regulated tariff, establishing a bilateral agreement with an electricity supplier or buying electricity directly from the electricity pool.

Spain has, however, now gone several steps further *along the competition path* by speeding up the liberalisation timetable for the power sector. Unveiling a new agreement with the main power groups in September, Josep Piqué, the industry and energy minister, *claimed that Spain was* implementing the fastest utility deregulation schedule in the euro-zone.

The most eye-catching feature of the latest agreement was that it threw out of the window the cautious descending scale of customers eligible to access the deregulated market that the 1996 electricity protocol had outlined in order to soften the impact of competition for the power groups.

This year, for example, only the handful of companies which consumed more *than 15GWh a year obtained* the freedom to choose their electricity provider and to negotiate the price and the supply of their power requirements. Under the original sliding scale, consumers of more than 9GWh *were eligible to enter the* competitive market in 2000, those consuming more than 5GWh had to wait until 2002 and the deregulation benefits were be delayed until 2004 for those consuming more than 1GWh.

The new timetable sweeps such caution aside. By October next year, all power users consuming at least 1GWh over an average 12 month period will be included in the competitive framework and deregulation will, as a result, cover some 8,000 companies which together represent 44 per cent of total energy consumption in Spain.

By 2007, the same date that was written into the 1996 electricity protocol, all consumers, whatever their *power requirements*, will be eligible to choose their electricity supplier.

In its deregulatory zeal the government built several other elements into its September agreement with the utilities. A key one was a 25 *per cent reduction in the dis*tribution and transmission tolls, a cost factor which is regulated by the government, for all eligible customers acquiring all their electricity in the free market. In the same vein it also cheapened payments, similarly set by the government, arising from the so-called guaranteed supply rate factor.

The thrust of such initiatives is to encourage eligible customers to take the plunge and gain full benefits from the competitive framework. Standing in the path of genuine liberalisation is the inertia-inducing fact that the domestic industry, as elsewhere, is strongly concentrated.

In Spain the power sector is a *virtual* duopoly. Endesa and Iberdrola split between them some 80 per cent of total electricity output while Unión Fenosa, the third-ranked power group, accounts for a further 15 per cent.

Deregulation is an article *of faith for Madrid's centre*-right government in general and for industry minister Mr Piqué, who has the additional job of government spokesman, in particular.

There is a dual track agenda behind such enthusiasm. The government believes that liberalisation is voter-friendly because it will bring down prices and it is, in any case, determined to implement as much deregulation as possible in advance of the launch of Europe's single currency because it views competition as the ideal instrument to combat potential inflationary pressures in the new euro-zone environment.

Included in the new liber*alisation ruling was a gov*ernment commitment to reduce electricity tariffs by 2.5 per cent next year, instead of by 1 per cent as scheduled in the 1996 protocol. The government estimates that the combination *of additional falls in toll* and guaranteed payment fees together with the onset of competition will bring down electricity costs by 10.7 per cent between 1997 and 2001 and by 18.8 per cent in real terms.

In order to bring the utilities round to the accelerated deregulation timetable the government authorised the power groups to securitise some Pta1,200bn ($8.3bn) of stranded costs created by a *fast changeover to a compet*itive industry that will inevitably have an impact on their revenues. This sweetener ensured the industry's assent to the new liberalisation schedule but it was contested by the *national commission for the electricity* sector, a government advisory body that monitors the regulation of the power generation.

The commission argued that the compensation paid via the securitisation package was over-generous to the utilities and prevented increased savings for consumers. It said tariff cuts should have been more courageous and that insufficient steps had been taken to foster competition.

These criticisms were dismissed by the government. The changes made to the original electricity protocol may not have wholly pleased competition purists but, according to the government, *they represented* a workable deregulation timetable and a clear improvement on the previous rulings.

Fizz and crackle: Spanish consumers will celebrate freedom of choice sooner than expected AP

PORTUGAL by Peter Wise

Anxious to gather an electric security blanket

Limitations of location and demand inform the approach to the EU directive

Portugal's approach to the European Union's Internal Electricity Market directive is determined by two inescapable facts: the country is dependent on imports for 90 per cent of the energy it consumes and is obliged by its geography to rely on Spain for interconnection with international electricity transmission networks.

These limitations have *resulted in the implementa*tion of a new regulatory framework, due to take full effect in January, which seeks to safeguard supply security and allow for long-term forward planning of electricity production.

Portugal, the first European country after the UK to agree to a private-sector investment in a large-scale power plant, has also designed its regulations, particularly a new tariff system, *to encourage a long-term* commitment to the country by foreign investors in power generation.

To address these concerns, two separate, co-existing electricity supply systems, known as the public and independent supply systems, have been created. The former involves the power plants, more than 30, owned by Electricidade de Portugal, the state-controlled national power utility, and two big private-sector plants. They are all locked in to supplying the national grid, a regulated, state-owned monopoly, through exclusive power purchase agreements.

"The public supply system provides for long-term planning by the public authorities, which can define energy policy goals in terms of fuels and types of power station and take into account other objectives, such as protecting the environment and ensuring cohesive supply *throughout the country*," says Jorge Vasconcelos, head of ERSE, Portugal's independent regulatory body for the electricity sector. The first such plan is due to be published shortly and will be regularly updated.

Electricity producers who set up in the independent supply system are free to supply eligible customers, paying a tariff for use of the national transmission and distribution grid. In regulations approved in 1995, Portugal defined eligible customers as industrial users who consume more than 100GWh a year at a single site. The country's four power distribution companies are also permitted to purchase up to 8 per cent of their consumption outside the public supply system.

These measures pre-date the EU directive, approved in 1996, requiring that from February next year customers representing 25 per cent of total electricity consumption must have the freedom to chose their supplier from anywhere in the EU. These customers must include all users consuming more than 100GWh a year.

Officials estimate that these industrial users account for about 7 per cent of total consumption in Portugal. The 8 per cent of total consumption that distribution companies are allowed to buy freely means that Portugal has already liberalised 15 per cent of its electricity market. It now has to extend freedom of choice to a further 10 per cent to comply with the directive.

This will involve lowering the 100GWh-a-year threshold which makes large users eligible to buy electricity outside the public system, extending the 8 per cent *limit imposed on distribu*tion companies, or a combination of both.

The decision falls to Erse, the independent regulator set up in 1997 to oversee liberalisation of the sector. This was the culmination of a process that followed the nationalisation of electricity generation, transmission and distribution in 1976. This led to the creation of EdP as a single monopoly covering all these areas.

Portugal began to move towards liberalisation in the late 1980s and in 1991 a consortium led by Siemens of Germany won a contract to build and operate a 950MW natural gas-fired power plant. In 1993, EdP sold two 300 MW coal-fired units to a group led by National Power of the UK. The plant's capacity has subsequently been extended to 1,200MW.

In 1994, EdP was divided into companies for generation and transmission. Four regional distribution companies were created and service and other specialised units were split off. EdP was partially privatised in global equity offerings in 1997 and 1998.

The regulatory framework coming in to force next year has been drawn up by Erse through a long process of public consultation. "We had the authority to sit down and write the rules ourselves," says Mr Vasconce*los. "But we wanted to* involve as many people as possible in the decision-making process and benefit from their experience."

It was also important in a country unfamiliar with the concept of independent regulation to make the process wholly transparent and provide legitimacy for the regulator's actions, he says. The response was unexpectedly positive with large numbers attending public hearings and submitting written proposals and comments, many of which have been incorporated into the framework. "For us, the method was as important as the final product," says Mr Vasconcelos.

One of the regulator's most important decision has been to introduce the price cap system of determining tariffs under which prices are fixed for a determined period against the consumer price index. The Portuguese system includes mechanisms for sharing profits above a determined level with customers and for adjusting tariffs in the unlikely event of a threat to company solvency.

"Customers and companies will know in advance *exactly what will happen if* thresholds are exceeded," says Mr Vasconcelos. "We believe this is the best way to provide for stability and a long-term commitment to the sector by investors."

SUPPLIERS by Guy Doyle

Over regulated, over optimistic, over here

US power companies will lead the charge of independents into liberalised European markets

One certainty in the emerging European wholesale power market is that US power companies will set the pace in exploiting the opportunities in this £200bn a year business. They will be followed by companies from other sectors and other countries and all will face competition from stronger and more assertive European utility and generation companies looking for business beyond their regional and national boundaries.

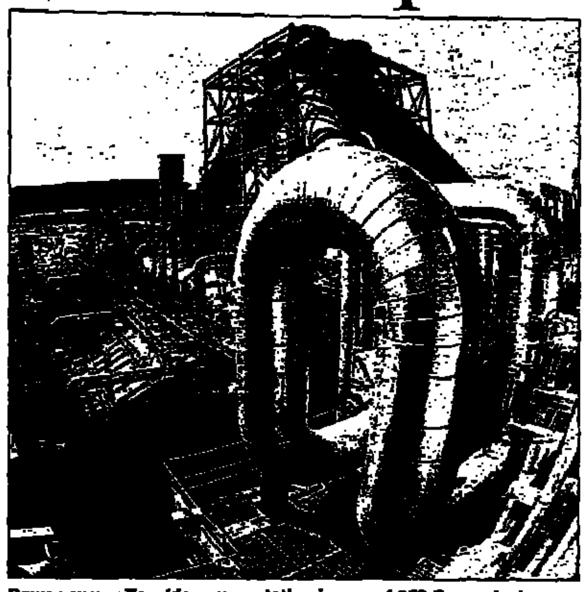
Most of the European electricity supply industry is under the control of nationally owned companies, many still partly or largely state-owned. The exception is the UK where US companies have acquired seven of the 12 England and Wales regional electricity companies. US companies also now control about 12,000MW (one fifth) of generation capacity on the UK grid thanks to acquisitions of existing plant and the building of new plant.

The opportunities for the US companies elsewhere have been more limited, although there have been a few notable acquisitions. Enron has bought Bitterfeld power station in Germany, has a joint venture pending in Italy and is involved in greenfield projects in Poland and Turkey. Southern Company acquired 26 per cent of Berlin utility, Bewag.

Last year, El Paso Energy and NRG signed a joint venture deal with SKE, a Czech utility, to build the country's first independent coal station, ECK Kladno. In Estonia, Cinergy is preferred bidder to take a 49 per cent stake in Narva, a distribution and supply company.

Other non-Europeans have taken little interest. Canadian Utilities' minority stake in the UK's Barking Power remains Canada's only significant foray to date.

And Japanese companies have been notable by their absence. Back in 1993, Tomen Corporation put a toe in the water, through its 22 per cent stake in Humber Power in the UK. Tomen did not act on its own initiative: the company was led into the project by Finland's Ivo, with which it has a trading relationship. No other Japanese trading house has made such an investment, although Mitsubishi and Marubeni were, until the recent Asian wobbles, looking for opportunities.



Power surge: Teeside power station is one of 250 Enron deals

Not surprisingly the initial moves have been made by power companies. Enron started out as a gas pipelines and trading company but it had moved downstream into generation in the US before looking overseas. Most of the other new entrants from the US are unregulated subsidiaries of large vertically integrated utilities.

InterGen is a notable exception: initially a joint venture between Bechtel and Pacific Gas & Electric, PG&E sold its stake to Shell last year.

Shell's purchase of the InterGen stake has been the most significant entry of the oil companies into merchant generation business.

Elf has also shown more initiative than most by signing a long-term gas tolling arrangement at Humber Power's South Humberbank II. Elf will pay a fee to the power station owner to convert its gas into electricity, which it will then be free to sell into the competitive wholesale power market. Elf has already set up an electricity trading desk in preparation for the commissioning of South Humberbank II.

Other oil and gas companies have looked at similar deals but, so far, without success. Some, such as BP, British Gas and Amoco, have now taken equity in independent greenfield generation projects, mainly in the UK. However, Exxon, the biggest oil company has, so far, not shown any interest in moving into merchant generation.

Enron remains the trail blazer, having concluded more than 250 power deals in Europe. The company has around 600 staff in the continent and is now operating in most European countries. It was recently awarded a licence to trade power in Germany and Spain, the first non-national to be granted permission in these countries. Enron was also the first non-national into the UK and was an early entrant into the Nordic Pool, where it has recently been established as the market maker.

Mark Frevert, Enron's chief executive officer, says that the company's "tactic is to develop a trading capability in a market, which gives us a better insight into the market and is a precondition for investment in physical assets".

This is a rather different tactic to many of the utilities, which have been after the physical assets first and then have sought to develop or inherit a market insight.

This interest in acquisitions has been driven by a belief that new owners can add value by stripping out inefficiencies and also by the expectation that lighter regulation will allow a higher return to shareholders than investing in the tightly regulated US market.

Another rationale for the US companies' interest in Europe is the chance to gain experience from operating in liberalised markets, experience which will give them a competitive edge in their home markets. This is especially the case in the emerging competitive wholesale and retail markets.

A few companies which bought into the UK appeared to have believed that there would be large profits to be made in the competitive supply markets if they could capture market share. The consensus view now is that regulatory price caps and the likelihood of tough competition will drive margins in competitive supply markets to very low levels. This has also been the case in the Nordic market.

One way in which electricity supply companies will respond to the tight margins is to contract out many of the business functions, from IT to billing and meter reading.

Aspiring new entrants to the emerging supply markets will also use contractors to reduce up-front entry costs. This growth in contracting will see a whole new set of companies, most notably IT and facilities management companies, beginning to eye the European power sector.

PROFILE
EdF

Determined to remain the power in the land

France's energy monolith is gearing up to see off international invaders

Francois Roussely, three months into the job as chairman of Electricité de France, smiles wryly as he explains his battle strategy for the powerful state owned electricity supplier as the European Union wide launch of competition in power markets looms.

From February 19, most of the 15 EU member countries will be required to open at least 25 per cent of their home market to competition, starting with the largest customers.

For the first time in more than 50 years, some 400 large French industrial and commercial power users will have the right to choose a supplier other than EdF.

The group's chairman, speaking at its Paris head office, is under no illusion that his company will need to sharpen its act to meet the new market conditions.

His first job, he says, has been to end the internal wrangling which has debilitated the group "while our international rivals were organising their market and sharpening their products".

Mr Roussely took over as head of the state monoploy in July, after Lionel Jospin, the French prime minister, forced the resignation of Edmond Alphandery, EdF chairman, and Pierre Daure, chief executive, halting a squabble over the running of the company which was threatening its development.

The new chairman – a career civil servant previously at the interior and defence ministries – says EdF will need to diversity to keep pace with international rivals offering an increasingly wide range of energy and utility products.

Dual fuel electricity and gas bills will become common place in markets such as the UK. Utilities, such as RWE in Germany, offer energy and telecommunications products. Mr Roussely says EdF will need to develop a closer relationship with its sister state-owned company Gaz de France.

Mr Roussely also wants to increase international investment, particularly in Europe. The French group will be a powerful competitor in the new internal market.

Its historically low cost of capital, as a state-owned company, has allowed it to build a substantial portfolio of nuclear power plants with low operating costs.

The EU directive will also allow it to continue to own and operate the French electricity transmission network, maintaining the group's competitive edge as a fully integrated generation, distribution and supply business.

EdF rebuts the concerns of potential competitors that its ownership of the wires will inhibit their ability to supply customers. It says that under the EU directive it will be required to establish a separate management to run the network which will not be able to discriminate against new customers.

The scale of the group's operations, generating annual turnover of more than $30bn, gives it substantial financial strength. It supplies some 30m customers in France with nuclear power accounting for about 80 per cent of its 100,000MW domestic capacity.

EdF is Europe's biggest power supplier exporting about 17 per cent of domestic production to the UK, Italy, Spain, Germany, Belgium and Switzerland. It also has strategic stakes in power operations in Austria, Italy, Switzerland, Spain, Sweden, Portugal and Poland.

Group efforts to reduce costs and over-manning, however, may be hampered by French legal requirements which give its workers similar status to civil servants, thereby providing job-security and other advantages.

Mr Roussely argues that EdF's efficiency is close to that of its private sector rivals. Nonetheless it may be difficult to change working practices. Public sector ownership, longer-term, could also inhibit more ambitious investment plans through lack of capital or risk aversion by government.

EdF directors, privately, do not deny that the company may eventually have to go private although Christian Perret, French industry secretary, has stressed that this is not on the agenda at present.

A senior management reshuffle announced last month by Mr Roussely was accompanied by the launch of a mission statement "*Vers le client*." This detailed plans to diversify the group's product range as well as proposing a substantial increase in international investment.

Mr Roussely wants the company to double its FFr15bn investment in foreign assets by the end of the century. Europe, which already accounts for 60 per cent of international investment, will remain a priority, he says.

The group was recently short-listed, with RWE of Germany, Singapore Power and British Energy, as a potential purchaser for London Electricity.

Jacques Chauvin, EdF's finance director says the group, in a further change of strategy, will seek controlling interests rather than minority stakes. He accepts that other countries may seek to block French investment if they are not allowed similar free access to French power markets.

Mr Chauvin says the group's accounts are prepared on a commercial basis and that it is 15 years since it received a state subsidiy. EdF pays corporation tax and raises finances on commercial terms from international banks and capital markets in the same way as private companies, says the finance director.

He says the company's legacy of cheap nuclear power will assist the group in the immediate future but the group could not go into the 21st century relying on its nuclear energy operations alone.

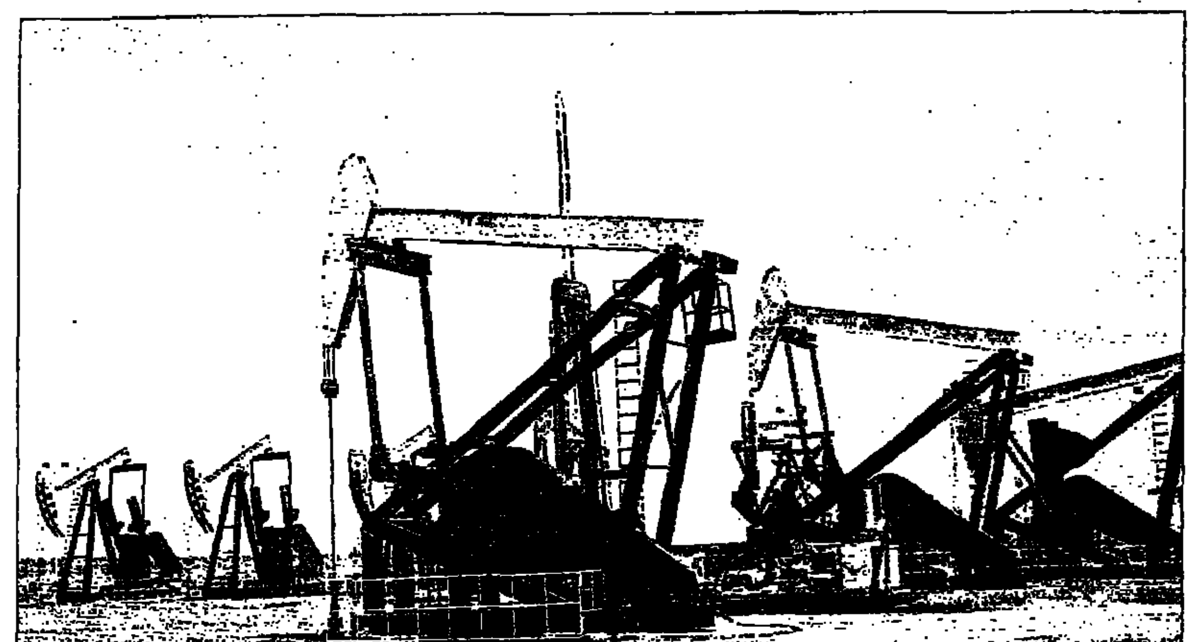
Diversification into other product areas could be a thorny issue for the government. EdF says that under the EU directive it "should have the means to fight on an equal basis" with competitors.

A more immediate problem will be to resolve serious technical problems which have closed some of the group's nuclear reactors and prompted it to lower its 1998 profit estimates by 37 per cent, after state levy, from FFr4.1bn to FFr2.6bn.

Andrew Taylor

Well of optimism far from exhausted

Dangers of economic turmoil are outweighed, says **Robert Corzine**, by the potential of huge reserves, ready markets and modernisation



As the ripples from global economic turmoil reach the shores of Latin America, the big question being asked by oil and gas companies in the region is how much damage an economic slowdown will inflict on what, until now, has been an enviably fast growth rate for the industry?

On the surface, the omens do not appear especially good. This year's collapse in crude prices, brought about in part by the Asian financial crisis, has torn holes in the budgets of the mainly state-owned dominant producers in the region. Petroleos de Venezuela (Pdvsa), which has the ambitious aim of trebling the country's oil output by 2008, has seen its budget for 1998 pared back from $7.4bn to about $5.4bn.

Pemex of Mexico, the other big Latin American oil producer, is in similar straits, with its budget of $8.4bn cut to $7bn. The story is much the same at other big regional companies, including Petrobras of Brazil and Ecopetrol in Colombia.

Low oil prices and the uncertain economic outlook are also undermining the credit worthiness of Latin American producers, limiting their ability to raise finance on international capital markets.

Such budget constraints are compounded by growing uncertainty about the plans of foreign oil and gas companies in the region. The success in recent years of Venezuela's policy of *apertura*, the opening of much of its domestic upstream industry to foreign investment, was dramatic when average oil prices were in the high teens. Now that prices are wallowing in the low teens, industry observers are wondering whether foreign companies will simply slip away.

There are also fears that hard times could produce a nationalist backlash against foreign investors, particularly in Venezuela should the populist presidential candidate Hugo Chavez win the forthcoming election.

The uncertain economic outlook and low oil prices could also undermine ambitious plans to link the continent's remote natural gas reserves with the region's industrial centres.

But, barring a global economic meltdown, many believe the continued expansion of the region's energy infrastructure is assured, albeit at a somewhat slower pace than in previous years. They argue that the expansion is fuelled by longer-term factors – the wholesale modernisation of stagnant economies; the widespread recognition that inefficient monopolies need to be reformed; the growing economic integration of the region, especially in the southern cone; and US demand for Latin American oil.

In some cases privatisation has been the driving force, such as in Argentina, where the denationalisation of YPF in 1993 led to a dramatic transformation of that company's fortunes.

But privatisation is not the only road to modernisation and greater openess in the energy sector. In Brazil, commentators argue that it was not so much Petrobras' public ownership that cost the country, but its monopoly status.

In recent weeks Petrobras's 45-year monopoly over oil production in the country came to an end with the signing of a joint venture deal with a YPF-consortium to explore a block in the Espirito Santo offshore basin. A string of other deals is expected to be announced in the coming month as the opening of Brazil's upstream sector gathers momentum.

Some analysts argue that tough times will accelerate the pace of energy sector liberalisation, as cash-strapped governments and state oil groups are forced to intensify their search for foreign partners and deepen existing alliances and partnerships.

For those potential foreign partners Latin America possesses two strong drawing cards. The first is the prospect of making substantial new discoveries or developing older ones at relatively low oil prices. The second is the proximity of markets, both within the region and in North America.

A study from the London-based Energy Market Consultants estimates that Latin American oil production is likely to rise over the next two decades, from about 8.5m barrels a day in 1997 to about 10.5m bpd by 2015. Another, by Mackay Consultants of Inverness, Scotland, suggests that exploration and development spending in the offshore sector in South America will rise from $5.8bn in 1996 to $7.5bn in 2000. That represents a rate of growth three times that predicted for the world offshore industry as a whole.

So far, even the most economically challenging projects in the region, such as the heavy oil projects in Venezuela's Orinoco Belt, appear to be mainly on track in spite of the collapse in oil prices. Total of France, which is developing the $3.6bn Sincor synthetic oil project due to start in 2001, says it will be economically robust even if crude prices are just $10 a barrel.

But the road to energy sector development in the region is not always easy. Earlier this year the much-publicised Camisea gas project, which promised to transform Peru's economy, collapsed after Royal Dutch/Shell and its partner, Mobil, pulled out of the $3bn deal having failed to reach agreement with the government in Lima over how much control the foreign companies would have over the development of the downstream gas market in the country.

Camisea highlighted how difficult it can be to create a gas infrastructure from scratch, especially when host governments are wary of what they see as monopolistic tendencies of foreign partners. The frustrating experience cost Shell and Mobil $500m, half of which had been invested since 1996.

In Colombia, British Petroleum has found itself under persistent threat of attack on the ground by leftist guerrillas, while it is repeatedly attacked in some sections of the international media for alleged links with Colombian army "death squads".

For companies such as BP which are especially sensitive about corporate reputations, such incidents can take up an inordinate amount of management. But in the long-run the fundamental attractions of Latin America's oil and gas industry are likely to outweigh even such thorny problems.

ARGENTINA by Ken Warn

Future promises a barrel of laughs

With huge reserves and long overdue modernisation finally under way, the country can look forward with a smile

Argentines tell the following story against themselves. God endowed Argentina with fertile lands, plentiful natural resources and every variety of climate. So to even things up with other nations he also gave Argentina the Argentines.

Yet those same Argentines, long renowned for their inefficient energy sector and inability to maximise returns from their abundant resources, have in the past few years become a key force in the fast-growing regional energy market.

Plentiful oil and gas reserves, combined with the successful privatisation of the energy sector in the early 1990s, have given the country a head start over the rest of the region in becoming an efficient energy producer.

The critical step was the 1993 privatisation of state oil concern YPF. The company promptly slashed its workforce and relinquished its total grip on local oil and gas production and refining.

But it still accounts for around 50 per cent of the hydrocarbons industry, both upstream and down, according to Roberto Monti, YPF chairman and chief executive. The company remains a powerful force in many of the country's significant energy projects.

After modernising the local industry, Argentina is beginning to exploit its natural gas reserves and its geographical position to provide neighbouring Chile and Brazil with relatively cheap and clean power. The falling cost of using gas to generate electricity has also helped unleash the potential of its resources.

Argentina currently produces about 90m cubic metres of natural gas a day, most of which is consumed domestically, with a small proportion exported to Chile. But within five to seven years Argentina could be exporting 60m cubic metres a day, mainly to Brazil, according to Hernán Ladeuix, energy analyst at Credit Lyonnais.

Exports to Chile began last year, through the $350m GasAndes project led by Canada's Nova Gas International. But Argentina's producers are increasingly eyeing Brazil. The country's relatively prosperous south is short of energy – power cuts are common – and is in the early stages of developing both residential gas supply networks and more electricity generation through gas.

Natural gas accounts for 45 per cent of Argentina's energy consumption and the market is likely to grow steadily but unspectacularly in future. But natural gas accounts for only 2.5 per cent of energy consumption in Brazil.

"The state of São Paulo alone has the same population as Argentina, so this is a market with huge potential," says Bill Adamson, director general of MetroGas, Argentina's biggest gas distribution company, which is controlled by BG (formerly British Gas).

A BG-led consortium, which includes US-Argentine joint venture Pan American Energy and Uruguayan state energy concern Ancapm, is about to begin constructing a 20m cubic-metre-a-day capacity pipeline to take gas from Buenos Aires across the River Plate to Montevideo, the Uruguayan capital.

"The Montevideo market is clearly relatively small, possibly growing to around 10m cubic metres a day in the next 10 years," says Mr Adamson. "The big prize after crossing the river has got to be Brazil." Studies have already begun on extending the pipeline 920 kilometres north east to Porto Alegre in southern Brazil.

This is not the only project aimed at taking Argentine gas to the Brazilian market. Canada's Alberta Energy, Mobil of the US and Japan's Marubeni are working on plans for a $1.8bn Argentina-Brazil link known as the Mercosur pipeline. Total, Nova and Argentina's energy concern YPF have yet another project.

Pipe dreams: gas will go to Chile, Bolivia and Brazil Sarah Provan

Argentina is also due to stop importing gas from Bolivia, reversing the flow in the existing pipeline and sending its own gas on to Brazil via the Bolivia-Brazil pipeline, due to be operational early next year.

"Everyone is now looking at setting up energy trading organisations to look at future trading opportunities between the two hubs of Buenos Aires and São Paulo," says Mr Adamson.

The GasAndes pipeline was the first link to take natural gas to Santiago, the smog-choked Chilean capital. Now rival consortia are racing to take energy from northern Argentina across the Andes to serve Chile's energy-hungry mining belt.

Tractabel of Belgium and Southern Energy of the US have resumed work on the $400m NorAndino pipeline after successfully overcoming a legal challenge from environmentalists earlier this year. While CMS Energy of the US and Chile's Endesa have embarked on a rival cross-Andes pipeline project. Periodic talks aimed at merging the two projects have, so far, failed.

The mounting activity in the gas sector cannot be matched by oil. Low prices have forced YPF to cut investment plans for this year and next and drilling activity has fallen.

Some oil projects are being delayed, especially in the Golfo San Jorge production area, according to Mr Ladeuix.

"Oil production had reached a plateau and, in fact, we are seeing the first decline in years," he says.

Argentina has 20 sedimentary basins – three offshore and 17 onshore (six of which extend offshore). Yet only five basins, scattered from the far north of the country to its southern tip, are currently in production.

Total proven reserves were last year estimated at 416.7bn cubic metres of oil and 684bn cubic metres of natural gas. The main area in production is the Neuquen basin in the west, with almost 180bn cubic metres of proven oil reserves and 338bn cubic metres of gas.

When oil prices recover, Argentina will be well-placed to crank up activity. And much of its vast territory, especially the offshore shelf, which extends some 200-300 miles, remains relatively under-explored. YPF and Brazil's Petrobras have agree to look more closely at offshore potential.

SUPPLY by Robert Corzine

From Caracas to Tierra del Fuego, the future will be gas-fired

Natural gas can be the fuel for the engine of economic development

The development of a natural gas grid across much of South America is seen as one of the most important pieces of infrastructure if the region is to ensure steady economic growth in the coming decades.

The outlines of such a grid are being put in place, with the main element – the Bolivia-Brazil gas pipeline – due to be completed by mid-December.

Although the spreading global economic crisis is casting a shadow over capital-intensive projects, many industry figures believe the *underlying factors still* favour continuing development of a regional gas grid, although it is not clear which pieces will be the next to be developed.

A shortage of generating capacity in the industrial heartland of southern Brazil is the engine driving the growth of the gas network. Although the collapse in crude oil prices has caused some existing gas users in the region to shift to cheap fuel oil, industry executives say such fuel substitution should not undermine the long-term demand for gas.

Brazil recognised the problem of possible fuel substitution in the early stages of building a regional gas grid and is subsidising gas prices for three to five years to ensure that end users have the confidence to switch to the more environmentally acceptable fuel. Investors in natural gas projects have also been heartened by the fact that, unlike some existing plants in Argentina, most new gas fired-generat*ing plants in Brazil* do not have the capability of switching between the fuels.

Andrew Barrett, senior executive with BG, the UK pipeline and exploration *company active* in the region, says long-term competition is more between natural gas and hydropower, than between gas and oil. Although hydropower can be one of the cheapest ways to generate large amounts of electricity, large-scale schemes are expensive as well as environmentally sensitive. They are also usually located far away from the main electricity markets.

Gas fields, too, are often remote but the capital costs of building combined cycle gas-fired power plants at main markets along the route of a pipeline are far less than the costs of a big hydropower scheme. In addition, gas-fired plants are more flexible; they can be built quickly and can be sized to match local demand.

Although gas export pipelines link Argentina with Chile, it is Brazil, and especially the São Paolo area, which is the key to the *long-term development of* the region's most remote gas reserves.

Officials from Total, the French oil group, speak of the "vacumn cleaner effect" of the Brazilian gas market. Total has discovered large reserves off the tip of southern Argentina, but Daniel Valot, Total's head of exploration and production, says it is "unlikely that you can take gas from the southern tip to southern Brazil with an acceptable netback".

But he also believes that the magnet of southern Brazil's industrial economy will draw in Argentine gas now being used to satisfy domestic demand in Buenos Aires and elsewhere. "It would then make sense for our remote reserves to replace the gas moving into southern Brazil."

Even so, Mr Valot does not expect an increase in regional gas trading to give a big boost to prices. Argentine gas prices are among the lowest in the world and any rise is likely to be "very slow and modest". The important point, he says, is *to be able to get large vol*umes to growing gas markets.

Like Mr Barrett, Mr Vallon believes there is little alternative to the long-term expansion of a regional gas grid: "The growth of hydropower is nearing its end. The Brazilians really have no other choice."

The pace at which new pipelines emerge depends in large part on how quickly demand develops for gas carried by the big Bolivia-Brazil pipeline, which has a capacity of 30bn cubic metres a year. There are those who believe the Brazilian demand will be so strong that little gas may be available at the end of the line at the coastal city of Porto Alegre. Several schemes have emerged over the past year to pump Argentine gas to Porto Alegre, in a development which would enhance the security of supply to the whole pipeline system. Some industry executives believe Brazilian demand may be such that two separate lines from Argentina could be required.

North-east Brazil offers *another potential gas market* for regional producers, although it is increasingly seen as a possible customer for liquefied natural gas. Trinidad, which is completing its first LNG plant, is especially keen to supply the north-east Brazilian market, although it faces stiff competition from Nigeria, which will become the other Atlantic basin LNG producer when its new plant at Bonny is finished.

CASE STUDY
CAMISEA & AGUAYTIA

It's a jungle out there

Peru's largest gas find is untapped because the government refused the integrated approach successful on a smaller site

The mid-July decision by a Shell-Mobil consortium not to proceed with the second-stage, $3bn development of Camisea, Latin America's largest natural gas and condensates field, was a stunning blow to the Peruvian government. For years, so many hopes had been pinned on Camisea: cheap and abundant energy for the next century, an associated petro-chemicals industry on *the coast, thousands of* jobs, a sharp cutback in the current account deficit.

Peru's government is still wondering what went wrong. The country's other hydrocarbons development – a tenth of the size of Camisea but now in full production – gives a clue.

In the central jungle fringe, 600km as the crow flies north of Camisea, an all-US consortium has invested $250m in developing a fully-integrated, greenfield natural gas and liquids project. Aguaytia Energy's gas facilities and power plant are now in full swing and the partners are tentatively talking about expansion.

"It's been a very complex project, involving basically all the same challenges as Camisea but in a scaled down version," says Rex Cannon, chief executive officer of Aguaytia Energy and consortium member and project operator Maple Gas.

Mr Cannon has been involved with the Aguaytia project since late 1992, when few international companies were ready to look at a Peru only recently emerging from years of *hyperinflation and terrorism*. The licence contract for Aguaytia was the first signed under the new hydrocarbons law passed in late 1993: it involved drilling new wells, constructing a series of pipelines, fractionation facilities and an energy plant, and building a 400km transmission line in the remote Andes.

"Having a fully-integrated project was crucial," says Mr Cannon. "Peru had no internal market for gas, so electricity generation was an obvious use for it. We suggested building a power plant alongside the gas fields." Even so, developing Aguaytia was taxing. The complex financing deal took two years to put together and, unusually, was achieved without any power *purchase agreements*. Securing more than 100 operating permits from central and local governments across the country also took time and patience.

The drilling programme for five new wells has resulted in reserves levels some 40 per cent higher than when Aguaytia took over the jungle hydrocarbons fields originally discovered in 1961 by Mobil. "There could be considerably more than that in the ground," says Mr Cannon.

For the moment Aguaytia is producing 2,400bpd of natural gasolines and 1,300bpd of LPGs. It sells the former for refining nearby. The bulk of the LPGs are trucked to Lima, keeping 28 lorries constantly on the move between the jungle fields and coastal markets.

Benefits are already being *felt. Mr Cannon estimates* that Aguaytia's LPGs have cut Peru's import requirements by 35 per cent: domestic prices have dropped since Aguaytia sells below the import parity price.

Most of Aguaytia's revenue comes from selling the electricity it generates into the national grid: in future it will sign contracts *with individual* large consumers, such as the huge Canadian-owned Antamina mine now being developed.

Camisea was, of course, a *far larger, more visible and* – arguably – politically sensitive project. Shell had originally signed an exploration contract in the early 1980s. When it struck gas rather than oil, Camisea looked a loser. A falling-out with the then foreign-investment hostile government of Alan Garcia provoked a strategic withdrawal by the Anglo-Dutch *conglomerate*.

Shell and new partner Mobil have been back since 1994 looking at ways of bringing natural gas to a non-existent local market from Camisea's virgin jungle *site 500km east* of Lima. The deposits lie next to the rich Manu national park, home to indigenous peoples. The challenge was to bring out some 11 trillion cubic feet of gas and 600m barrels of LPGs – using a North Sea-style "offshore" approach with no roads, only helicopters – without harm to the environment or the peoples. A dual pipeline would have taken the hydrocarbons over the 4,000m Andes to the coast.

It is a measure of Shell-Mobil's sensible and sensitive approach – and the ability to learn from earlier mistakes – that native communities in the area expressed profound regret at their July withdrawal decision. The Washington-based Smithsonian Institute had *also given the consortium* high marks for its environmental attitude.

In the end, it seems to have been the Peruvian government's stubborn refusal to allow Shell and Mobil an Aguaytia-style "integrated" project, covering extraction, transportation and initial distribution of gas in Lima, that frustrated a project which was already marginal economically.

If Peru is the principal loser, Shell and Mobil have also lost some $500m, half of that invested since 1996, *the remainder in the 1980s* exploration programme. The government now plans to tender the giant project in three separate parts, probably next year. But industry experts are sceptical: financing and essential back-to-back commercial guarantees make it a vastly more complex option than development by a single *company*.

With international oil prices depressed and the world's largest companies reining in on investments, Camisea's riches could well lie another decade or more under the swathes of virgin jungle.

Mr Cannon still believes Peru has a bright future as an exporter of hydrocarbons. "It's a country of huge oil and gas reserves – and not just Camisea," *he says*. "What is important is that government policy promote the gas business."

Sally Bowen

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TECHNOLOGY by Matthew Pettipher

Unlimited miles per gallon

In emerging economies, transportable petrol stations could bring a welcome injection of safety to fuel supply

Millions of Russians might not see it this way, but the breakdown in the country's infrastructure can be an inspiration.

When directors of Minale Tattersfield Designers, travelling in some of Russia's more remote areas, saw petrol being dispensed by hand from makeshift containers, it gave them an idea. The result is the Mintat G2 transportable petrol station.

"Petrol was being sold from jerry cans which presents a huge safety risk," says Simon Simpson, design director of Minale Tattersfield. "There was an obvious opportunity for a transportable system to store and dispense fuel in a safe manner."

Having designed traditional petrol stations, developing a transportable unit was "a logical step" for the company, says Mr Simpson.

"The technology already exists in various forms. It was a question of integrating it and using it in a new way."

The Mintat G2 is a modular, container-based system with the core unit comprising a 20,000 litre tank with two inset pumps and a canopy. Additional modules include a shop unit, ramp and decking unit and services units, such as generator and separator, allowing the Mintat to operate independently of fixed services if required.

The biggest technical challenge was overcoming the traditional resistance to above-ground storage of petroleum. This is based on well founded fears about flammability, so it is no surprise that the Mintat comes equipped with a barrage of fire-fighting equipment.

A system safeguarding against the inherent dangers of surface storage is timely, given a sea-change in opinion on fuel storage which is at its most advanced in Scandinavia.

On the move: assembled, the Mintat has all the capabilities of a permanent site

Sweden is considering legislation requiring petrol to be stored above ground, a move reflecting the shift in concern away from the explosive potential of the commodity to its corrosive potential.

The great, and hidden, enemy is leakage which, because tanks are situated below ground, is undetectable until it manifests itself with devastating effect on the environment.

The integrity of modern above-ground tanks is on a par with their subterranean counterparts and, where spills or leakages occur, secondary systems such as Mintat's pump-drained ramps and inbuilt separators can contain the damage.

Mr Simpson is confident the Mintat will exceed all the conditions laid out by European regulators. "We are not doing this on a speculative basis," he says.

"We have been working with the regulators to gain approval and we will meet the standards. It is a matter of morality as much as anything."

Regulatory approval will clear the way to the next and, in Mr Simpson's view, potentially most difficult, hurdle – overcoming industry and consumer conservatism.

"There is no precedent," he says. "We have to prove the system can work, that we can satisfy the authorities to put clients at ease."

Mintat's design reflects its genesis. Transportability is the key to its potential for use in poorly serviced areas as a ship and truck can take it anywhere.

"We envisaged its use in remote regions where there is no traditional retailing but where there should be," says Mr Simpson. "It is not a permanent solution. Rather it is a means to test markets, or even products."

This has been the basis for discussions with several of the large oil companies interested in extending their retail presence to developing markets in Africa and Asia.

In many cases the Mintat could, at a stroke, drastically improve on the health, safety and environmental provisions of existing methods in such regions and test the viability of their markets.

In the course of these discussions the potential for other applications has arisen. In established markets and, more specifically, locations, the Mintat could plug a gap during the refurbishment of existing sites.

"Redevelopment can take up to nine months and the retailer can lose not only revenue for that period but also customer loyalty as a competitor can step in," says Mr Simpson.

"A temporary site would maintain flow so the retailer would not lose out."

Mr Simpson believes that the commercial benefit of such an arrangement would soon offset the $250,000 cost of the core unit and prove the viability of the system.

In another area, the Mintat could be instrumental in proving the viability of alternatives to the petrol engine.

Geoff McCormick, Minale's business development manager, says one of the "global top three" motor manufacturers has expressed an interest in the system to deliver liquid petroleum gas. LPG cars are hampered less by technology than by the scarcity of refuelling sites. A transportable delivery system, flexible enough to meet the safety requirements for assembly on, or close to, petrol stations, could provide an answer.

PROFILE
PETROBRAS

Solo gives way to chorus of approval

When the Petrobras orchestra tuned up this month at the company's 45th birthday party, it was an occasion for muted celebration.

There was plenty to be proud of: production has risen from 2,700 barrels a day in 1953 to 1.1m bpd today and will reach 1.5m by the end of next year.

Technological achievements include the world record for deep water extraction and a contract to supply petrol to the Williams Formula 1 racing team.

Petrobras is the world's 15th biggest oil company and boasts activities generating $80bn a year, or a tenth of Brazil's gross domestic product.

But it faces an uncertain future. Privatisation has been ruled out, at least for the time being, but the monopoly Petrobras held over the industry was broken last year. It must now compete in an open market.

"Petrobras used to be an agency of the government," says David Zylberstajn, head of the National Petroleum Agency (ANP), a body created recently to oversee the industry.

"Now it becomes a concessionaire like any other. By the middle of next year we will have completed the first contracts for foreign companies to operate in Brazilian fields."

Reform of Brazil's public sector oil and gas industries forms part of the country's drive for modernisation this decade, accelerated under Fernando Henrique Cardoso, re-elected this month for a second four-year term starting in January.

But while the steel, telecoms and electricity industries have all been, or soon will be, sold, and while gas companies controlled by state governments will soon join them, Petrobras remains in the public sector.

One reason is the emotions it inspires. "The oil is ours," goes the company's old slogan and many Brazilians agree, seeing in Petrobras a big employer and a source of pride, with a strategic role at home and abroad.

Whether most Brazilians wish it to remain under public control is not clear. Support for privatisation in general continues to advance.

But Petrobras, through its immense economic power and potential for patronage, has had enough politicians on its side to fend off privatisation and the cuts that would inevitably follow.

In exchange for congressional backing for a law that opened the industry to private sector participation last year, Mr Cardoso had to deliver a letter promising the company would not be sold.

Mr Zylberstajn argues that privatisation is not the main issue. "Brazil has lost a lot, not so much from Petrobras's being in the public sector, although the public sector is always less efficient, but from its being a monopoly," he says.

"We have produced less oil than we could have and imported more than we should have and created less employment because we haven't had the dynamic of a competitive petroleum industry. Breaking the Petrobras monopoly is more important than privatisation."

That the company's power is not what it was became clear in July, when the ANP announced a ruling on concessions to exploit areas with potential, but unconfirmed, oil and gas deposits. Petrobras had applied for 10.5 per cent of the total area, the ANP gave it 7.1 per cent.

In the Baia de Campos region off the coast of Rio de Janeiro, where 75 per cent of Brazil's oil is produced, the company was given 51.9 per cent of exploration rights, leaving 48.1 per cent for public tender.

But Petrobras is far from being a spent force. It retained control over those areas with greatest potential, including two fields expected to yield 200,000 bpd. And it has persuaded the ANP to back down over royalties and other payments it planned to charge the company on its concessions.

It may have to face more changes. Analysts say the government is preparing to alter the composition of its board of directors, increasing government representation from two out of 10 directors to eight out of 10.

To do so, however, would be to risk upsetting members of the government's coalition in Congress. At a time when Mr Cardoso is calling on his supporters to unite behind spending cuts and tax increases to save Brazil from the effects of the world financial crisis, that would be far from expedient.

The old-style Petrobras may be calling the tune for a while longer.

Jonathan Wheatley

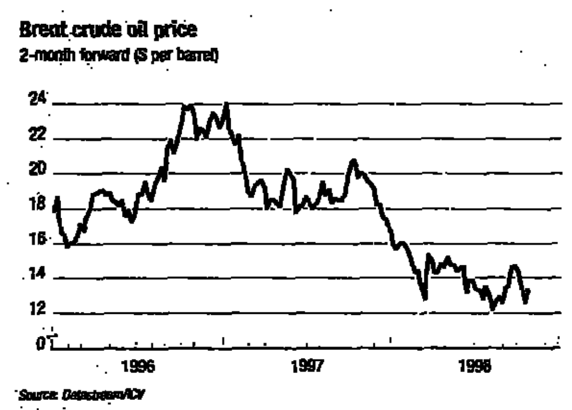
PRICES by Robert Corzine

Slow puncture in the wheel of fortune

The slump may reflect a fundamental shift in the oil market rather than the low point of a familiar cycle

Are low oil prices here to stay? The question is on the lips of government ministers of petroleum producing countries, of senior executives in the boardrooms of the world's biggest oil companies and of analysts and speculators in the trading rooms of brokerage houses.

History suggests that the slump is probably just the low point in a cycle that will turn upwards. But given the weight of uncertainty bearing down on the industry as a result of the global financial crisis, many fear that something more fundamental may be taking place which – aside from occasional spikes upwards – could keep average prices low for some years.



Mark Moody-Stuart, chairman of Royal Dutch/Shell, recently came out on the side of those who see a structural shift occurring with oil prices. The chairman of another leading European oil company has, for some time, been saying that prices of $18-$20 a barrel may be unsustainable. Ministers and officials from members of the Organisation of Petroleum Exporting Countries still talk about sustained prices in the high teens but, privately, some say they would be more than happy with the mid-teens.

Other signs that the oil world is preparing for a prolonged period of low prices abound. Crine, the UK industry organisation formed to develop ways to cut the relatively high costs of North Sea producers, is gearing up for yet another big push for a further significant cost reduction. This time the group wants to cut the total per barrel cost of exploring and developing North Sea fields (including the eventual decommissioning costs) from $12 to $10 by the year 2000 and $8 by 2002. That compares with average all-in costs of about $15 a barrel as recently as 1992.

Crine officials claim that such dramatic cost savings are possible not so much through technological advances or by squeezing the profit margins of contractors and suppliers, although both will probably play a part, but by reforming the supply chain and encouraging the use of greater shared services across the sector.

At the same time as efforts are being made to insulate the traditionally high cost non-Opec oil areas from low prices, technology continues to alter the structure of new oil field economics. In Venezuela, Total and its partners say their $4bn Sincor project, to produce heavy oil from the Orinoco Belt and upgrade it to sweet, light synthetic crude remains on track in spite of world crude prices at a level that would have killed off such projects just a few years ago.

The incessant talk in the industry of further corporate restructuring and consolidation is also a response to low prices. British Petroleum and Amoco claim their merger is not directly related to low prices. But there is little doubt that Sir John Browne, chief executive-designate of the combined group, is taking more than a little solace from the fact that he has $2bn of cost savings in his sights.

Investment bankers, such as Rod Peacock of JP Morgan, believe it is inevitable that other oil companies will merge. Some companies with especially robust growth profiles may continue to garner shareholder support on their own but more pedestrian performers could struggle for recognition – and investment – in the shadows of a top tier of consolidated companies delivering a steady stream of cost savings and greater efficiencies.

Bankers say companies considering mergers or agreed takeovers should follow some basic rules:

- There should be no "step-outs" into new business areas. Investors do not want to see management diverted into areas where the value is not proven.
- There should be clarity of management. "The market is distinctly underwhelmed by co-chief executives," says Mr Peacock.
- The management of the combined group should be able to quantify clearly the first tranche of cost savings. As in the case of BP Amoco, such clarity of purpose can deliver an immediate share price and market capitalisation boost, thus deterring any alternative paper offer.

Opec officials say such drastic steps could be averted if western oil companies would only co-operate in stabilising the markets. But aside from the obvious legal implications, there is little enthusiasm on the part of western companies to explore what such co-operation might mean.

Robert Mabro, director of the Oxford Institute for Energy Studies, endorses the view that the industry has the collective capability to do much to help lift prices off the floor.

But it is far from clear whether many in the industry believe that. The combination of global economic uncertainty and the absence of any reliable data on just how big the present oil stock overhang is, and how long it might take to be whittled down through Opec production cuts, has left much of the oil world in a decidedly defensive state of mind.

INTERVIEW
RILWANU LUKMAN

Discreet messenger whose voice cannot be ignored

Opec's secretary general is defending oil in the climate change debate and his members in wrangles over production and price

The secretary generalship of the Organisation of Petroleum Exporting Countries has never been seen as a particularly "bully pulpit." Dr Subroto, the Indonesian who occupied the post until 1996, likened it to being a messenger who moved back and forth between the group's disparate and often mutually suspicious members.

Rilwanu Lukman, the Nigerian who succeeded him, still has to perform the role of discreet messenger, especially during formal Opec meetings at the group's headquarters in Vienna. But this year's collapse in oil prices and the continuing international debate over global warming has raised the profile of Opec's secretary general, although his most frequent messages – that low prices are not necessarily to the long-term benefit of consumers and that oil is not the main villain in global warming – do not always find a receptive audience.

"People are looking for a scapegoat and oil is a very good scapegoat," says Mr Lukman, in a reference to attempts by some pressure groups to roll back the world's consumption of crude. He insists that the public perception of Opec as a diehard defender of the unhindered use of oil is wrong. Opec members may not accept that science has proved conclusively that global warming will cause irreversible damage to the Earth's atmosphere but the group would support precautionary measures, as long as they were aimed at the main sources of greenhouse gases.

"(Pro-rata) taxation is one solution . . . as long as it penalises sources that emit the most gas. Coal is a far greater polluter but oil is penalised while coal is subsidised."

In line with many international oil companies, Mr Lukman argues that high taxes on refined oil products have done nothing to slow the growth in crude demand. As a mining engineer who once did a stint in Britain's coal fields, Mr Lukman also insists he has nothing against coal, but "oil is inherently cleaner".

The climate change initiative is only one threat to oil producers. This year's collapse in crude prices is a clear and present economic danger to most oil producing countries and companies.


Spotlight: events have forced a high profile for Mr Lukman

Ironically, it has also made Opec – which holds about three-quarters of the world's crude reserves but which accounts for only about 40 per cent or so of production – more relevant. Chief executives of the big western oil companies say it is up to Opec to rein in output further in order to stabilise markets and build a foundation for eventual price rises.

Mr Lukman expresses the frustration that Opec producers feel at being singled out in such a way. "We'll do our part but you can't expect us to cut to zero. That would be asking Opec countries to commit suicide," he says.

Although Opec members have not ruled out further cuts, Mr Lukman says much will depend on the state of the world economy at the end of November, when Opec's next formal meeting takes place. After all, he notes, it is the real economy that is the basic driver of crude prices. "If prices remain low and cuts are the only way out, then okay. But why cut if we don't need to?" he asks.

Opec producers have made no secret of their frustration over what they see as inaction on the part of western oil companies to help stabilise oil prices.

The western companies say any cutbacks they might make would be insignificant in comparison with those made by the Opec producers and would leave them open to charges of collusion to control crude prices. Mr Lukman points out, however, that the planned increases in output promised by the bigger western producers over the next few years might have the effect of lowering their overall revenues if they depressed crude prices further.

Mr Lukman stresses that the aim of Opec's appeals for greater cooperation between the segments of the world's oil industry is not to create a new oil cartel. But, he says, depressed prices are threatening to curtail investment to ensure sufficient capacity in the future. "They're hurting everybody, inside and outside of Opec, including the (multinational) oil companies. All we're asking for is some understanding on the part of all the people involved."

But as much as Mr Lukman insists that cooperative arrangements would not merely serve as camouflage for possible price manipulation, many industry observers, as well as the governments of oil consuming countries, remain suspicious of such talk.

After all, the core message of Mr Lukman and Opec is the need for higher crude prices. Mr Lukman says a price of $16-$20 a barrel for the North Sea benchmark Brent Blend would "not be a bad range".

But what of Opec's future? After all, Ali al-Naimi, Saudi Arabia's oil minister, this year called for the creation of a broader and more informal grouping of producers. "Naimi didn't say we should abolish Opec," says Mr Lukman, rather, he was suggesting that there should be a more widespread debate among the world's main crude producers. "You can't have people who produce 60 per cent of the world's oil indifferent to price."

He says the main concern should not be the size or existence of Opec, but the "health of the world's oil industry. People should get off the idea of looking at things in isolation."

Robert Corzine

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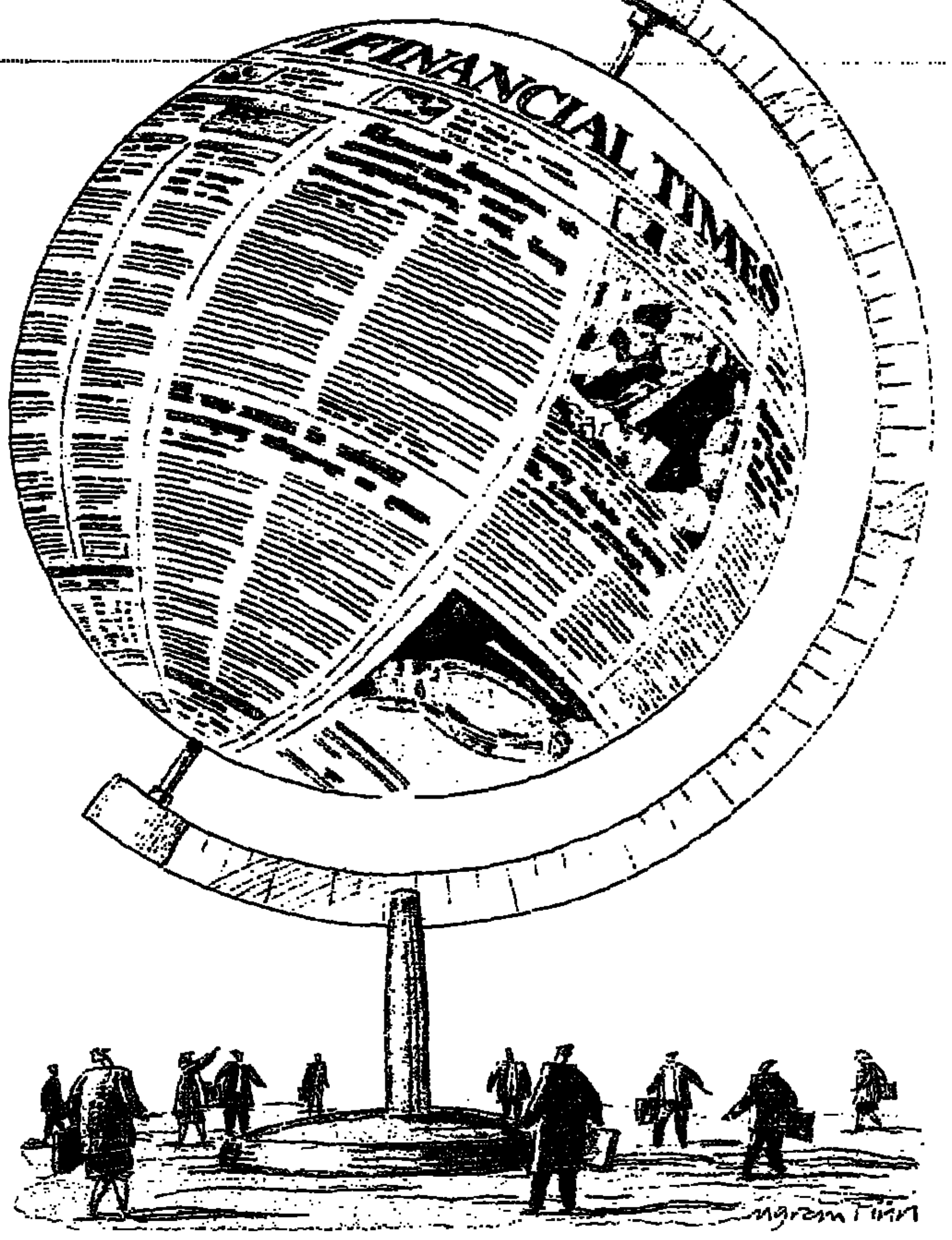
FINANCIAL TIMES

THE GLOBAL FT

Nearly 20 years after a modest beginning, sales of the FT's international edition have surpassed those in the UK. A four-page pull-out looks at past, present and future

Pink and black, and read all over

BY RICHARD LAMBERT, EDITOR



The international growth of the Financial Times – to the point that its circulation is now greater outside than inside the UK – has been driven by the same trends that have reshaped so many British based businesses over the past 20 years.

They include the rapid increase in cross-border trade and capital flows, the growing acceptance of English as the language of business, and changes in technology.

The decisive moment came on a freezing winter night, January 1 1979, when the first copy of the paper to be printed outside the UK rolled off the presses in Frankfurt, in what was then West Germany.

Since then, the production processes have been transformed, making it possible for the paper to be printed each night in 10 different sites outside the UK, from Tokyo in the East to Los Angeles in the West. But many of the elements behind the Financial Times' international growth strategy were already in place 20 years ago.

Business people everywhere were adapting to a world in which the growth in domestic economies had long been led by rising volumes of world trade. The impact had been particularly marked in the UK, as a relatively open economy with a long history of direct investment overseas.

By the late 1970s, moreover, an increasing number of important British businesses were passing into foreign ownership and international companies were using the UK as a platform to launch their products and services into the rest of Europe.

The need for more international business and economic news was also being felt in the Financial Times' own neighbourhood, the City of London. The eurodollar market had started to expand rapidly in London from the mid-1960s, providing a growing volume of advertising revenue for the paper and encouraging it to expand its network of correspondents around the world. The City had lent billions to countries like Mexico and Poland, and wanted to know if it was going to get the money back.

As Reuters and the Economist have also shown, London turned out to be a good place from which to report on international business and economic news. It had a good slot on the international time zone, neatly placed between Asia and the US. And its journalists had long been more outward looking than their US peers, who had a huge domestic economy to keep them busy.

The paper had already established an international presence 30 years ago. A market survey in 1968 of 352 chairman and managing directors of major European companies outside the UK found that 39 per cent of them were reading the Financial Times, despite its late and erratic delivery. Big efforts were made to expand that footprint in the following years.

But it took the development of full-page facsimile equipment to make international printing a practical proposition. Even then, the process would have made Henry Ford or Frederick Taylor feel faint. Until well into the 1980s, the newspaper was being produced in hot metal in London in an increasingly anarchic print shop.

Everything was changed by the digital revolution. The old bottlenecks in the press rooms were blown away: production costs fell; pages could be reshaped and redesigned in a fraction of the time; and starting up a print facility on someone else's presses in a new city became a relatively simple, and much less costly, operation.

The formula now is well established. Outside the UK, the paper is aimed at business leaders and policy makers more generally who want a broader view of the world than they can get from their domestic publications. It is a niche audience, but an influential one, and it is growing.

Much more clearly than was the case in the 1960s, when a number of international banks were establishing themselves in France, the use of English is becoming standard among business people. And the collapse of communism and of trade barriers everywhere has transformed the international market place, with much greater opportunities for trade and investment of every kind.

At the same time, the US is becoming increasingly integrated into the global economy, and more of its businesses are starting to operate outside their own borders. The Financial Times started a US edition just over a year ago to cater for this audience, which is expected to be one of its main sources of growth in the next few years.

At least as tough a challenge has been to retain the paper's leadership position in the highly competitive UK market, which remains by far its biggest single source of sales. If readers in Manchester thought they were being shortchanged in favour of those in Milan, they would quickly go elsewhere, certainly to find their UK business news.

Britain's growing links with the rest of Europe has made our task easier. A UK motor component business is likely to be at least as interested in what is going on in Stuttgart as it is in Coventry. And as responsibility for industrial policymaking has started to shift from London to Brussels, even those businesses with no international interests have had to start paying attention to what is going on outside their national borders.

Still, the FT is catering for a very widely scattered convoy of readers in the UK, with a disparate set of interests. That is why it will continue its efforts to provide the most comprehensive and authoritative reporting of the British business and economic scene that is available anywhere.

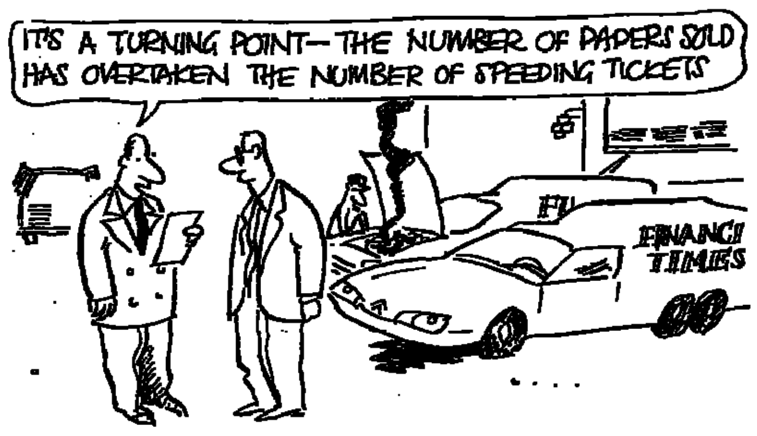
In the US, Germany, France and other important markets, the Financial Times does not seek to go head to head with the established competition in its coverage of national business stories. Its competitive edge lies in other areas.

But the UK is different. There we feel we have to outgun what we call the white broadsheets by a good margin.

Overall, the newspaper aims to provide accurate, valuable information – news, context, comment and analysis – with a global perspective. We will always be very interested to hear your views of how we are doing, and of what we might do in the future.

THE GLOBAL FT HISTORY IN THE MAKING

HOW WE GOT FROM THERE TO HERE



Miracle in the snow
Since the FT's international edition was launched nearly 20 years ago – on January 1 1979 – the newspaper's total circulation has nearly doubled, and the proportion sold outside the UK has soared from 14 per cent to more than 50 per cent. Now printed in 10 sites, the edition's beginning was not auspicious. Using untried technology, a patchwork system of production and relying on specially designed Citroën vans to speed copies across Europe at 100mph, the first FTs rolled off the presses in Frankfurt – into one of the worst blizzards for years. Dominick Coyle, who oversaw the first 18 months of the editorial production in Frankfurt and later was international edition editor in London, was a former Rome correspondent with a penchant for lapsing into Italian. Even now, he describes the first night simply: "Miracolo".

Miracles aside, what he said every night for seven years
"The best newspaper in the world is no good in the warehouse".

Fog over the Atlantic – America cut off
Frankfurt also printed newspapers for US readers. If deadlines were met, papers caught a Lufthansa freighter in the wee hours, allowing them to be delivered on Wall Street by 9.30am. Except on Sunday night, when there was no flight. US readers got their Monday FTs along with the Tuesday edition.

Squeezing to fit
Describing production of the early international edition as a hybrid process would be understatement. It combined pages transmitted intact from the UK edition, pages set by non-English speaking printers and pasted up on light tables in Germany, and a mixture of the two – a "strip in" was far more prosaic than an invitation to an orgy. Preparing copy for faxing gave work to a brace of copy typists, as well as the makers of sticky labels, Pritt Stick adhesive and Tipp-Ex correction fluid. Editing marks in longhand had to be removed and replaced with very careful printing. Most of those copy editors find themselves crossing their 7s to this day.

Just the fax, ma'am
Even dinosaurs were young once. A peep into the communications centre revealed technology few had seen before. Facsimile machines the size of washer-dryers. Fax machines of different standards, some of which could not communicate with each other. Flat-bed fax machines to transmit whole pages.

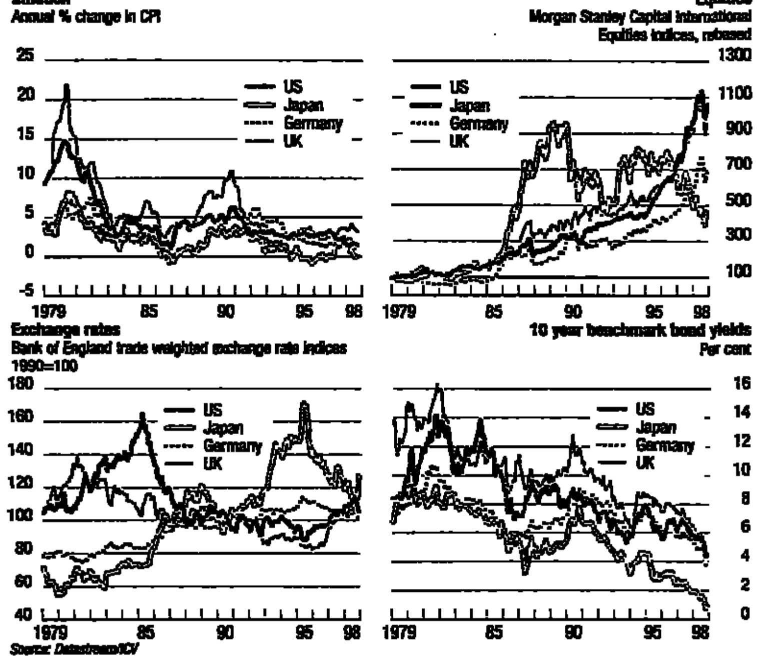
Yes, it WAS a new technology
"This is confidential. Fax it in an envelope" – a senior FT editor in 1979.

Opening a second front
The biggest superficial distinction was being printed in two sections, at that time unknown for any daily UK newspaper. This was a fait accompli, reflecting the press configuration at Frankfurter Societäts-Druckerei, the German printer.

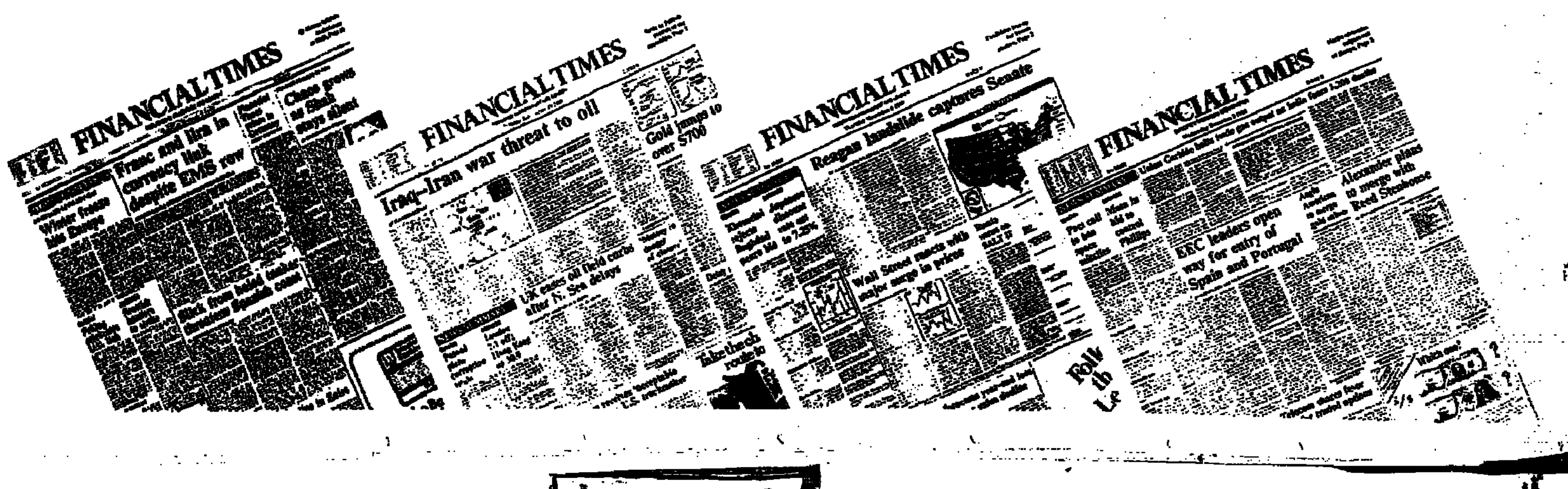
But it ensured the content and display would have to be different from the UK version and gave David Palmer and David Bell, in charge of the editorial side of the project (and both later chief executives of the FT), the ammunition they needed to push aggressively for a more international product.

Initially, changes were mostly cosmetic and limited to certain pages. Those constraints have largely disappeared. The UK edition changed to a two-section format in 1988.

TWO DECADES BY THE NUMBERS



A BRIEF HISTORY OF (FINANCIAL) TIMES



هكذا من الاصل

صكنا من الاجل

THE GLOBAL FT HISTORY IN THE MAKING


1991


1998


1988


1989


1989


1990

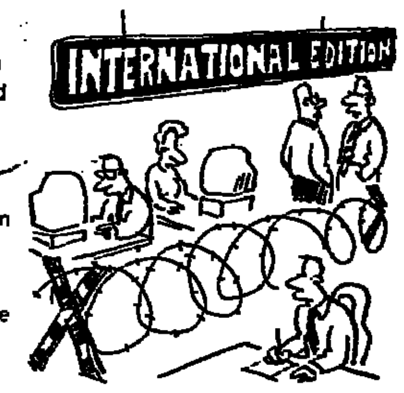
1996


1998

HOW WE GOT FROM THERE TO HERE

Surviving the shrink factor
The dimensions of the international edition were precisely 0.905 those of the UK edition, a challenge for legibility, not to mention arithmetic skills. And all that faxing taxed the quality of editorial and advertising photographs. "Dot loss" was a heavy burden for Vic Clark, the editor's design adviser.

Out of dissolution, integration
For its first 12 years, the international edition was produced by a dedicated team of news and copy editors based in London. This reflected, largely, the bolt-on nature of its production process in relation to what was still viewed as the "main" UK edition. Since 1991, however, editing has been done as an integrated process, side by side with the UK edition.



The elimination of the dedicated desk was a turning point. The separate structure had institutionalised a second-class, downstream status; ending it forced many UK-oriented editors to take the international edition seriously for the first time. The needs of readers outside the UK came much more to the forefront of the newspaper's total planning.

Words you never hear at the FT any more
"Remember, we are a British newspaper."

This guy didn't last long either
"It'll never work". A senior recruit standing, uninvited, on an editor's doorstep a few days before the 1979 launch.

Before Japan's bubble burst
In 1990, the FT "Put Japan First" by opening its first Asian – and fourth international – print site. Tokyo was always an interim step. "For the rest of Asia, printing in Japan meant we were only one day late, rather than two days late," recalls Terry Damer, in charge of logistics and marketing in Tokyo, a role he had undertaken in the first six years in Frankfurt and was later to repeat for the opening of Hong Kong in 1996.

Ever since, the needs of Tokyo have determined the FT's first-edition deadlines. A winter print start of 6.30am local time enables guaranteed delivery in central Tokyo by 9am.

The FT's distinctive salmon pink newsprint also tested Japanese just-in-time practice to its limit. A local supplier once inadvertently let stocks dwindle to only three rolls and had to fly newsprint from Finland at considerable expense.

Where we really print – behind every big city...
"Paris" – Roubaix; "New York" – Bellmawr, New Jersey;
"Stockholm" – Jönköping

Different strokes
While the front page of FTs sold in Japan has a contents digest in Japanese, and papers in Hong Kong have a special panel of Asian market statistics, readers in the Americas now get a separate half-page of Latin American and Caribbean news, and North American news has also been greatly expanded. A later US second edition goes to far more places than before.

Street scene
Richard Lambert, the FT's editor who spent the last year in the US overseeing the enhanced American edition, couldn't believe how quickly the paper had taken off in Manhattan. Every person walking in the street seemed to be carrying one... er, even the bag lady. He turned the corner, to find copies being handed out as a promotion.

If we can make it there...
A New Yorker cover in July may be the ultimate accolade – the newspaper floating in the angry tycoon's swimming pool was not one of the magazine's established home-town titles but the relative newcomer. Somehow that sealed the FT's arrival even more than recent cameo appearances in *The Avengers*, *Mission Impossible* (with some scenes filmed a few steps away from the FT's London office) or the grisly opening sequence of Steven Spielberg's *The Lost World*. The dinosaurs won't win this one.

Edited by: Clay Harris **Design:** Andrew Chappin **Picture research:** Mathew Glynn
Photographs: AP, FT, Popperfoto, Reuters, Rex **Cartoons:** Roger Beale
Graphics: Chris Walker, Russ Birkett **Research/Statistics:** Peter Cheek, Chris Flood

TWO DECADES FROM A TO Z

1979	1998
Andreotti	Amazon.com
Brezhnev	Blair
Carter	Cabiallavetta
Davignon	D'Alema
EMS	EMU
FT	FT
Gundelach	Greenspan
Hostages	Habibie
Itel	iMac
Jablonski	Jospin
Khomeini	Kosovo
LTV	LTCM
Mountbatten	Monica
Namibia	Net and Yahoo!
Ohira	Osama bin Laden
Palimony	Primakov
Quadrophenia	Quattrone
Rhodesia	Ronaldo
Schmidt	Schröder
Three Mile Island	*Titanic*
Uganda	URL
Volcker	Viagra
Waldheim	Wye Plantation
Xonics	Xenova
Y194=$1	Y2K
Zombie Flesh Eaters	Zurich Financial Services

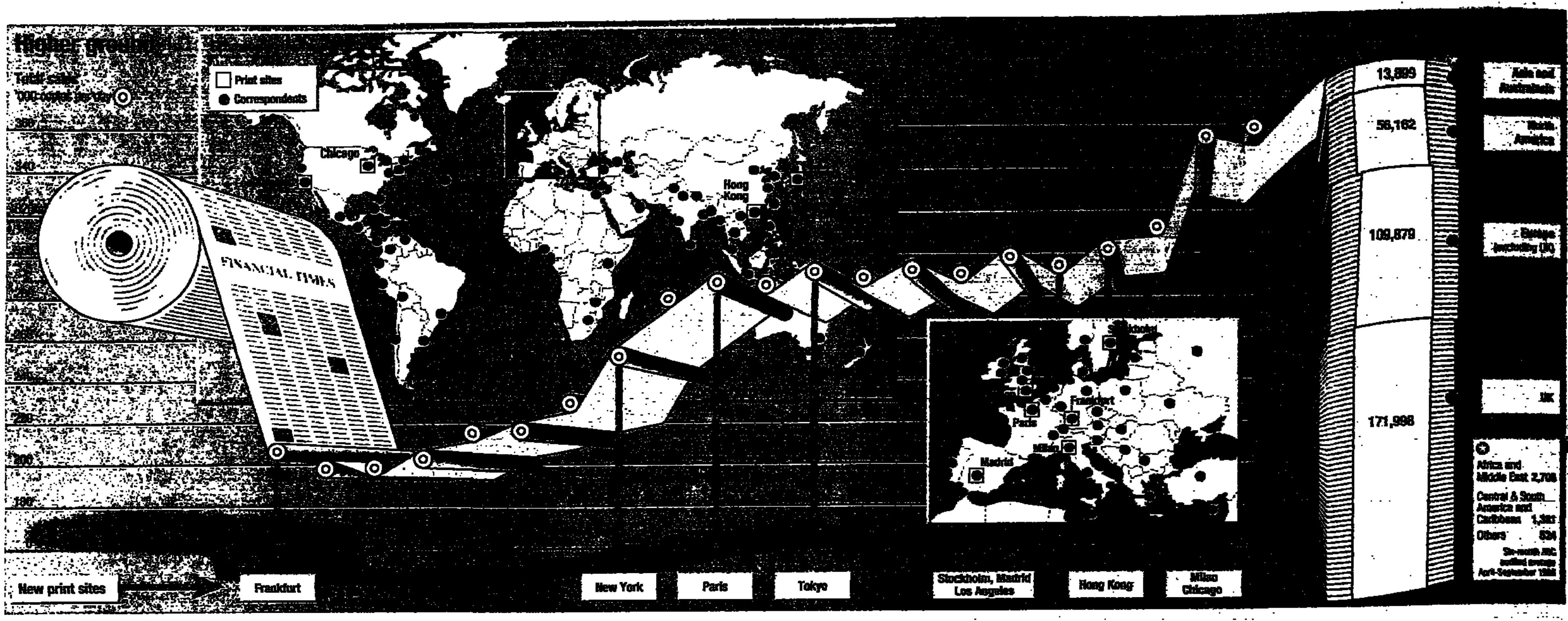

FINANCIAL TIMES
Reactor 'burning out of control'

FINANCIAL TIMES
Record falls on Wall Street trigger worldwide slide

FINANCIAL TIMES
Reagan and Gorbachev sign historic arms reduction pact

FINANCIAL TIMES
Handshake seals end of empire

THE GLOBAL FT FUTURE



Delivering what you want the ways you ask for it

BY PETER MARTIN,
INTERNATIONAL EDITOR

The future of the international edition of the Financial Times is in part in the hands of its publishers, writers and editors. But in many ways the decisive role in shaping the paper's future lies with its readers. Will newspaper readers in the decades to come continue to want to receive their information on paper? Or will they prefer to consume it electronically? The Financial Times, like other newspapers, is prepared for this shift, thanks to its electronic edition, FT.com.

Indeed, the FT has gone further than many other publishers: it no longer owns any printing presses, preferring to contract out the task of getting ink on to paper. This ensures that the organisation is, in an important sense, neutral about the choice of medium that readers may make in the future. We are ready to supply the FT's intellectual content in whichever form readers prefer.

A more demanding question, however, relates to the shape of that intellectual content. Will readers continue to want a "bundled" publication, in which material that is directly relevant to them is combined with material that the editors think they should know about? Or will they in future seek more narrowly focused publications, ones which speak only to their own interests and experience?

It is now easier than ever for publishers to supply and readers to obtain such narrowly focused material. Electronic information services can easily deliver personalised feeds of news and comment. FT material can of course be tailored in this way and technological developments at FT.com increasingly permit this choice. If readers shift in this direction, we are able to meet their needs. But the journalists at the paper would, I suspect, regret such a development.

The essence of a newspaper is the drawing together of heterogeneous material for a relatively broadly based community. It is open to all, at a relatively low cost. Good journalists are attracted to their job because it allows them to play this public role: the provision of a private intelligence service is a subtly different task, with different rewards and ambitions.

So we hope that readers will continue to want to read a relatively wide-ranging publication. And there are good grounds for thinking that they will. Newspapers, after all, exist in part to provide readers with peripheral vision. They alert their public to events that – though outside their normal areas of concern – will none the less affect them powerfully in the months and years ahead. Some academic studies suggest that the most successful business leaders are those who have the widest contacts and reading outside their own companies and areas of specialisation. It is this breadth of information that a "bundled" newspaper provides.

That does not mean that newspapers are not selective; indeed, a business newspaper like the FT has already done some substantial narrowing of its coverage. We do not publish routine crime, gossip or showbiz news, for example. The creation of separate UK, European and US editions reflects a further selectivity.

There is every likelihood that, in future, we will extend the number of editions. At the very least, we are likely to produce a separate edition for Asia, where readers currently receive essentially the same edition as those in the Americas. It will contain more material of direct relevance to Asian readers, and give less prominence to stories that are peripheral to Asian concerns.

It is possible to imagine other distinct regional editions – for example, Latin America, Greater China, Middle East, Central and Eastern Europe – if editorial and production resources permit. But all our worldwide editions will continue to share the great bulk of their content. They will also retain an identity of values and world-view. We are creating a world business newspaper for a cross-border community of internationally minded decision makers, in business, economics and policy. That requires the Financial Times to continue to be, in its practical details as well as in its underlying ethos, one newspaper worldwide.

Within that newspaper, competitive pressures – and the ever greater demands on the time of our readers – will require an increasing emphasis on original news, analysis and comment.

News remains the lifeblood of our publication; but much day-to-day news has become commoditised, endlessly recycled. We cannot hope to keep our readers' attention by replaying to them events they will have seen on their television screens or trading room terminals the day before. That forces us to try harder to discover original stories, and – where we cover the same stories as everyone else – to add value in the form of better reporting and more insights.

Some of these original stories will be good old-fashioned scoops. Sometimes, our original stories will be ones that no one else is interested in, except our readers. Much of our coverage of the minutiae of international trade policy, for example, falls into that category. So does our detailed day-by-day examination of the workings of the new European Central Bank. Our coverage of the growing tensions inside the boom economies of south-east Asia – before the crisis – is another case in point. These are stories that no other newspaper in the world covers in such detail. We press on because we believe the stories to be vitally important to our readers; and their response tells us that we are right.

In addition to such original reporting, we will redouble our efforts to provide context, analysis, judgment and comment. At a time when the world's economic and political developments are more closely intertwined than ever, domestic media seem to focus increasingly on the trivial and the close to home. It is our task not merely to report the world to our readers, but to help make sense of it, with our own commentators and other leading voices.

Making sense of the world is an important aspect of what the Financial Times seeks to do. We can continue to perform this task, however, only with the support and engagement of our readers. Not simply their willingness to continue to buy the paper, but – more important – their commitment to reading and responding to the words we publish. In this way, above all, the decisive role in shaping the paper's future lies with its readers.